

ALASKA PUBLIC DEBT



STATE OF ALASKA
Sean Parnell, Governor

Department of Revenue

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2010-2011

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I. Types of Alaska Public Debt

The State has liability or potential exposure for repayment of principal and interest nine categories. In descending order of the State's liability, the types of obligations are:

- State Debt
- State Supported Debt
- State Guaranteed Debt
- State Moral Obligation Debt
- State and University Revenue Debt
- State Agency Debt
- State Agency Collateralized or Insured Debt
- Municipal Debt
- Industrial Development Bonds

On the following pages, each type of State obligation is briefly discussed and defined. Table 1.1 summarizes Alaska's \$9.0 billion of public debt by type.

In Section II, Alaska issuers of public debt are described and statistical tables are provided for each issuer.

A. State Debt

State Debt includes revenue anticipation notes (RAN's) and general obligation bonds (GOB's). The full faith, credit and resources of the State are pledged to the payment of principal and interest on this debt. If future State revenues are insufficient to make the required principal and interest payments to bondholders and noteholders, the State is legally required by its contract with bondholders and noteholders to raise taxes in order to meet these obligations.

1. Revenue Anticipation Notes (RAN's)

Short-term State borrowing in anticipation of revenues is permitted under AS 43.08.010. RAN's may be issued and renewed from time to time, but all such notes, renewals and interest thereon shall be paid from revenues by the end of the fiscal year following the year in which the notes were issued. The full faith, credit, resources, and taxing power of the State are pledged to the payment of RAN's and interest thereon. To further secure such payment, and if necessary to effect advantageous borrowing to the State, collateral may also be pledged. There are no State RAN's issued or outstanding at June 30, 2010.

2. General Obligation Bonds (GOB's)

The State Constitution provides that GOB's must be authorized by law and ratified by the voters. Generally, the Constitution permits authorization of GOB's only for capital improvements. The legal provisions regarding GOB's are contained in Section 8, Article IX of the Alaska Constitution and AS 37.15, the State Bonding Act. The amount and timing of a bond sale must be approved by the State Bond Committee. There is no statutory limit on the amount of State GOB's that may be authorized. \$151,639,941 in authorized GOB's remain unissued at June 30, 2010.

On November 2, 2010 Alaska's voter's authorized an additional \$397,200,000 of general obligation bonds for education capital improvements. \$200,000,000 of bonds were sold on December 7, 2010 to take advantage of bond structures authorized in the American Reinvestment & Recovery Act that expired on December 31, 2010. This issuance will be reported in next year's debt book.

As of June 30, 2010 the State has issued GOB's 51 times since statehood, raising almost \$2.2 billion. In addition, the State assumed the outstanding debt of the Territory of Alaska as GOB's of the State. In 1959, the Territorial debt was \$2.9 million. As of June 30, 2010, the State had \$475.7 million in GOB's outstanding.

In April 2003 the State Bond Committee sold State of Alaska GOB's Series B in the amount of \$102.8 million. The bonds are eligible for federal reimbursement of debt service from Federal Highway Administration receipts in addition to the general obligation pledge of the State of Alaska.

The interest cost on State bond issues is determined by several factors, the major factor being the general level of interest rates in the global economy. However, the credit rating assigned to an issuer and the related investor assessment of credit risk are important factors. The State's credit ratings improved from Baa1/A in 1973 to Aaa/AA+/AA+ by 2010. The State's credit ratings were upgraded by both Moody's and Fitch Ratings in 2010. A significant factor behind the credit rating is the value and extended life of the State's oil-based revenues combined with significant reserve positions and slow steady economic growth.

B. State Supported Debt

State Supported Debt is debt for which the ultimate source of payment is, or may include, appropriations from the State's General Fund. The debt does not have the full faith and credit of the State pledged to it but, it may have the full faith and credit of another public issuer, as in the case of municipal school debt.

State Supported Debt is not considered debt under the Alaska Constitution because the State's payments on the debt obligations, even if they are the subject of a contractual commitment, are subject to annual legislative appropriation. As a result, voter approval of such debt is not required.

State Supported Debt includes lease-purchase financing obligations (structured as certificates of participation (COP's)), the share of municipal G.O. bonds issued for school construction which is reimbursable by the State, the portion of university or municipal G.O. bonds issued for certain capital projects which is reimbursable by the State, and Capital Leases the State has entered for the Atwood Office Building and Parking Garage with AHFC and the Anchorage Jail with the Municipality of Anchorage. Additionally, in January 2009 the State entered into a lease supporting \$244.3 million of bonds issued to fund the Goose Creek Correctional Center.

Historically, State Supported Debt has been authorized by voter referendum as in the case of municipal school debt, by law as in the case of the University, by legislative resolution pursuant to AS 37.05.280 (now repealed) as in the case of ASHA, and by action of the State Bond Committee as in the case of some COP's.

In 1986, legislation increased legislative control over lease-financing. Chapter 106, SLA 1986, effective January 1, 1988, requires approval by law of any executive branch lease-financing agreements with annual lease payments exceeding \$1 million. Chapter 73, SLA 1992, effective September 14, 1992, adds the requirement of approval by law of leases with total lease payments exceeding \$10 million. Chapter 75, SLA 1994, effective June 7, 1994, generally requires prior legislative approval of all lease-purchase agreements, other than the refinancing of outstanding balances on existing lease purchase agreements and certain University of Alaska transactions.

At June 30, 2010, State Supported Debt was \$1,256.4 million as shown in Table 1.1.

C. State Guaranteed Debt

In the 1982 general election, voters approved an amendment to Article IX, Section 8 of the Alaska Constitution that permits the State to guarantee unconditionally as a general obligation of the State, the payment of principal and interest on revenue bonds issued by AHFC for the purpose of purchasing mortgage loans made for residences of qualifying veterans. This is the only purpose for which State Guaranteed Bonds may be issued. Because the bonds are general obligations of the State, they must be authorized by law, ratified by the voters, and approved by the State Bond Committee. In five elections from 1982 through 2002 voters approved propositions authorizing \$2.7 billion of State Guaranteed Bonds for veterans' mortgages. While not reported in the year ended June 30, 2010 on November 2, 2010 Alaska's voter's approved an additional \$600 million of State Guaranteed Bonds for veterans' mortgages.

These bonds are known to investors as "double-barreled" because there are two distinct forms of security behind the bonds. Their first lien is on the revenue stream generated by payments on the mortgage loans made from bond sale proceeds. Additional security to bondholders is provided by the general obligation pledge of the State to make the required debt service payments in the event that revenues are insufficient. In recognition of the creditworthiness of the veterans' bonds, they have been rated AAA; higher than the State G.O. bonds.

The constitutional amendment permitting the State general obligation pledge on veterans' mortgage bonds was necessary only to gain tax-exempt status for the bonds. The Mortgage Subsidy Bond Tax Act passed by Congress in 1980 restricted the ability of states or public corporations to sell tax-exempt housing bonds above specified ceilings unless they were also general obligations of the issuing state and the proceeds were used for housing loans for veterans. After the 1980 legislation and before the 1982 constitutional amendment, AHFC had been issuing more expensive taxable bonds for veterans' as well as non-veterans' loans.

Because of the strong support behind the bonds, independent of the State's general obligation pledge, this debt is not counted by the rating agencies as general obligation debt. However, if problems in meeting debt service on veterans' bonds were to arise, the bonds would be treated as general obligation debt for credit rating purposes.

At June 30, 2010, State Guaranteed Debt was \$300.3 million, as shown on Table 1.1.

D. State Moral Obligation Debt

This type of debt consists of bonds issued by State agencies which are secured, in part, by a reserve fund to which is attached a discretionary replenishment provision. Such a reserve fund is typically called a capital reserve fund. The discretionary replenishment provision typically reads:

The chairman of the authority (or corporation) shall annually, no later than January 1, certify in writing to the Governor and the Legislature the amount, if any, required to restore the capital reserve fund to the capital reserve fund requirement. The Legislature may appropriate to the authority (or corporation) the amount certified by the chairman of the authority (or corporation). Nothing in this section creates a debt or liability of the state.

A capital reserve fund is generally equal in size to the maximum amount of debt service required in any year. Alaska's discretionary replenishment provision means that if the reserve fund should fall below its required level, the State Legislature may, but is not legally required to, appropriate funds sufficient to restore the capital reserve fund to its required level. The most likely reason that such a reserve fund would fall short of the required level is if agency revenues were insufficient to meet a given debt service payment and the reserve fund had to be used to make the payment.

The authority to issue moral obligation bonds is contained in the enabling legislation of Alaska Aerospace Development Corporation, Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Student Loan Corporation, Alaska Municipal Bond Bank, and Alaska Energy Authority. Such authority is not granted to the other State agencies.

At June 30, 2010, State Moral Obligation Debt was \$1,171.8 million, as shown in Table 1.1.

E. State Revenue and University Debt

This type of debt Issued by the State on behalf of the Sportfish Program and the Alaska International Airport System or by the University is secured only by revenues derived from the issuing enterprise. Revenue Debt is not a general obligation of the State or the University and does not require voter approval. Such debt is authorized by law and issued by the University or by the State Bond Committee. This type of debt includes International Airports Revenue Bonds, Sport Fish Revenue Bonds, various University Revenue Bonds and Notes, and Toll Facilities Revenue Bonds.

At June 30, 2010, State Revenue and University Debt was \$736.8 million, as shown on Table 1.1.

F. State Agency Debt

State Agency Debt is secured by revenues generated from the use of bond proceeds or the assets of the agency issuing the bonds. The debt is not a general obligation of the State nor does the State provide security for the debt in any other manner, i.e., by appropriations, guarantees, or moral obligation pledges. The State has, however, appropriated funds to subsidize the interest rate to the borrower in the case of much of the AHFC debt listed as State Agency Debt in Table 1.1.

Nevertheless, if default threatened on any such State Agency Debt, there is some possibility the State would provide relief. The ties between these agencies and the State -- such as their statutory origin and authority, subjection to the executive budget act and State contracting procedures, cabinet membership on boards, legislative approval of bond issuance, and, most fundamentally, achievement of their missions as a political goal of the State -- may mean that the State has or will take responsibility for such debt even though it has no legal liability. A default on any State Agency Debt would probably affect ratings and interest costs on all State and State Agency and certain municipal debt.

The exception to the expectation of State response in the event of a default is the Tobacco Settlement Asset Backed Bonds issued by the Northern Tobacco Securitization Corporation. These bonds were deliberately structured without any implication of State support to divest the State of a portion of its position with the settlement. Investors in these bonds have received a commensurately higher yield than for other types of State Agency Debt.

At June 30, 2010, State Agency Debt was \$864.8 million, as shown on Table 1.1.

G. State Agency Collateralized or Insured Debt

As security for this type of debt, the State agency pledges mortgage loans or other securities which may be 100% insured or guaranteed by another party of superior credit standing. This upgrades the credit rating on the debt and lowers the interest cost. It also makes very remote any likelihood of the State having to assume responsibility for the debt. The details of such debt are explained in the section on AHFC.

At June 30, 2010, State Agency Collateralized or Insured Debt was \$2,739.0 million, as shown on Table 1.1.

H. Municipal Debt

Political subdivisions within the State of Alaska are termed "municipalities." The five categories of municipality are home rule city, general law city, home rule borough, general law borough, and unified municipality.

Alaska municipalities had 2.5 billion in general obligation bonds outstanding at June 30, 2010. Alaska municipalities' general obligation debt has remained relatively stable over the last five years, and remains below its peak of \$2.67 billion reached in 1986.

In addition to general obligation debt that is supported by local taxes, cities and boroughs may issue debt that is supported by the revenues generated by the project financed through the issuance of debt. At June 30, 2010, approximately \$778.2 million in municipal revenue bonds was outstanding. These revenue bonds accounted for 23.7% of all local debt outstanding in Alaska.

I. Industrial Development Bonds (IDB's)

The City of Valdez, Alaska issued approximately \$1.7 billion of Industrial Development Bonds (IDB's), from 1976 - 1986, to finance construction of the Trans Alaska Pipeline System. These bonds, repaid solely by revenues from major oil companies, are not obligations of the State of Alaska or the City of Valdez. These Industrial Development Bonds are not included in the amounts of Alaska public debt in this publication.

TABLE 1.1
State and State Agency Debt by Type at 6/30/10
 \$ (millions)

| | principal outstanding | interest to maturity | total debt service to maturity |
|--|--------------------------|-------------------------|-----------------------------------|
| State Debt | | | |
| State of Alaska General Obligation Bonds | 475.7 | 180.0 | 655.7 |
| State Supported Debt | | | |
| Lease-Purchase Financings | 45.6 | 9.6 | 55.2 |
| State Reimbursement of Municipal School Debt Service | 865.1 | 299.1 | 1,164.2 |
| State Reimbursement of capital projects | 30.1 | 10.2 | 40.3 |
| Capital Leases | 315.6 | 203.0 | 518.6 |
| Total State Supported Debt | 1,256.4 | 521.9 | 1,778.3 |
| State Guaranteed Debt | | | |
| Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program) | 300.3 | 245.3 | 545.6 |
| State Moral Obligation Debt | | | |
| Alaska Municipal Bond Bank: | | | |
| 1976 General Resolution General Obligation Bonds | 206.5 | 81.6 | 288.1 |
| 2005 General Resolution General Obligation Bonds | 362.4 | 210.2 | 572.6 |
| 1998-2004 General Revenue Bonds | 53.9 | 37.0 | 90.9 |
| Alaska Energy Authority: | | | |
| Power Revenue Bonds #1 through #5 | 107.7 | 40.5 | 148.2 |
| Utility Revenue Bonds (Including Refundings City and Borough of Sitka) | 35.3 | 12.1 | 47.4 |
| Alaska Student Loan Corporation | | 61.5 | 61.5 |
| Student Loan Revenue Bonds | 330.0 | 61.5 | 391.5 |
| Student Capital Project Revenue Bonds | 76.0 | 9.9 | 85.9 |
| Total State Moral Obligation Debt | 1,171.8 | 514.3 | 1,686.1 |
| State Revenue Debt | | | |
| Sportfish Revenue Bonds | 54.4 | 24.8 | 79.2 |
| International Airports Revenue Bonds | 561.1 | 292.4 | 853.6 |
| University of Alaska Debt | | | |
| University of Alaska Revenue Bonds | 100.5 | 43.5 | 144.0 |
| University Indebtedness to AK Housing Finance Corporation (5) | 18.5 | 2.5 | 21.0 |
| Installment Contracts | 2.4 | 0.3 | 2.7 |
| Total University of Alaska Debt | 121.3 | 46.3 | 167.6 |
| Total State Revenue and University Debt | 736.8 | 338.8 | 1,075.6 |
| State Agency Debt | | | |
| Alaska Housing Finance Corporation: | | | |
| Commercial Paper | 112.3 | N/A | 112.3 |
| Alaska Municipal Bond Bank Coastal Energy Loan Bonds | 10.9 | 6.5 | 17.4 |
| Alaska Railroad | 183.0 | 56.0 | 239.0 |
| Northern Tobacco Securitization Corporation | | | |
| 2006 Tobacco Settlement Asset-Backed Bonds | 380.4 | 540.7 | 921.1 |
| Alaska Student Loan Corporation | | | |
| Loan with State of Alaska | 63.0 | 8.1 | 71.1 |
| Funding Note Purchase Greement | 115.3 | 3.1 | 118.4 |
| Total State Agency Debt | 864.8 | 614.5 | 1,479.3 |
| State Agency Collateralized or Insured Debt | | | |
| Alaska Housing Finance Corporation: | | | |
| Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds: | | | |
| 1998 Through 2010 (First Time Homebuyer Program) | 1,478.4 | 1,052.3 | 2,530.7 |
| General Mortgage Revenue Bonds 2002 | 148.8 | 136.3 | 285.1 |
| Housing Development Bonds 2002 through 2004 | 243.5 | 210.7 | 454.2 |
| General Housing Purpose Bonds 2005 | 285.8 | 229.7 | 515.5 |
| Government Purpose Bonds 1997 & 2001 | 152.3 | 55.3 | 207.6 |
| State Capital Project Bonds, 2002-2007 | 255.6 | 151.5 | 407.1 |
| Alaska Industrial Development and Export Authority: | | | |
| Revolving Fund and Refunding Revolving Fund Bonds | 95.2 | 35.2 | 130.4 |
| Power Revenue Bonds, First Series (Snettisham Hydro Project) | 79.4 | 62.7 | 142.1 |
| Total State Agency Collateralized or Insured Debt | 2,739.0 | 1,933.7 | 4,672.7 |
| Total State and State Agency Debt | 7,544.8 | | |
| Municipal Debt | | | |
| School G.O. Debt | 1,244.4 | N/A | N/A |
| Other G.O. Debt | 1,256.0 | N/A | N/A |
| Revenue Debt | 778.2 | N/A | N/A |
| Total Municipal Debt | 3,278.6 | | |
| Less: State Reimbursable Debt and Capital Leases * | -1,220.2 | | |
| Less: Alaska Municipal Bond Bank debt included in municipal debt * | -564.8 | | |
| | 1,493.7 | | |
| Total Alaska Public Debt | \$ 9,038.5 | | |

TABLE 1.1 (Continued)
State and State Agency Debt by Type at 6/30/10

NOTES

1. University debt owed to AHFC is double counted in detail, but eliminated from Total Alaska Public Debt

* Reimbursable school G.O. debt is included in "state supported debt"

Capital Leases are included in State Agency Collateralized or Insured Debt

State Reimbursement of Capital Projects is included in University and Municipal Debt

Sources: 2008 annual reports and financial statements of AHFC, AMBBA, AIDEA, AEA, U of A, AKRR, and directly from agencies.

II. Issuers of Alaska Public Debt

In Section I, the nine types of Alaska public debt are described. In this section, the issuers of Alaska public debt are described. Issuers include the State, State Agencies and University, and Municipalities.

At June 30, 2010, total public debt of Alaska issuers stood at \$9.0 billion, as follows:

| | |
|-------------------------------------|-------------------|
| | \$ (millions) |
| State of Alaska Revenue and GO Debt | 1,391.6 |
| State Supported Debt | 1,256.4 |
| State Agencies and University Debt | 4,896.9 |
| Municipalities Debt | 3,278.6 |
| Less duplicate reporting * | (1,785) |
| Total Alaska Public Debt | <u>\$ 9,038.5</u> |

* \$564.8 million of Alaska Municipal Bond Bank debt issued to purchase municipal debt, \$892.4 million State reimbursable debt, and \$327.7 million in capital leases.

A. State of Alaska

State debt includes general obligation bonds, International Airport System revenue bonds, sport fish revenue bonds, toll facility revenue bonds, and revenue anticipation notes.

1. General Obligation Debt

Tables 2.1-2.5 below summarize the State's general obligation debt issued and outstanding.

TABLE 2.1
General Obligation Bonds Annual Debt Service
 \$ (thousands)

| | | | |
|-----------------------------------|--|-----------|-----------|
| | <u>payments due during year ending 6/30/10</u> | | |
| balance outstanding at 6/30/10 | principal | interest | total |
| \$475,740 | \$ 27,105 | \$ 21,839 | \$ 48,944 |

Source: Department of Revenue bond documents

TABLE 2.2
General Obligation Bonds Authorized, Issued, and Outstanding
 \$ (thousands)

| fiscal year | authorized | issued | outstanding at 6/30 |
|--------------|---------------------|---------------------|------------------------|
| 1957 | \$ 2,932 | - | - |
| 1958 | - | \$ 1,290 | \$ 1,290 |
| 1959 | - | 1,642 | 2,932 |
| 1960 | - | - | 2,902 |
| 1961 | 30,500 | - | 2,806 |
| 1962 | - | 13,975 | 23,405 |
| 1963 | 17,325 | 14,429 | 30,336 |
| 1964 | - | 7,865 | 37,614 |
| 1965 | 7,000 | - | 36,737 |
| 1966 | - | - | 35,535 |
| 1967 | 62,585 | 31,585 | 65,872 |
| 1968 | 13,185 | 26,000 | 90,094 |
| 1969 | 44,700 | 19,000 | 105,333 |
| 1970 | - | 32,231 | 133,834 |
| 1971 | 146,200 | 69,380 | 195,203 |
| 1972 | - | 53,445 | 238,943 |
| 1973 | 124,500 | 47,000 | 274,578 |
| 1974 | - | 31,000 | 293,114 |
| 1975 | 189,575 | 112,300 | 392,508 |
| 1976 | - | 82,915 | 462,923 |
| 1977 | 200,981 | 80,000 | 530,008 |
| 1978 | - | 85,000 | 596,213 |
| 1979 | 271,355 | 100,000 | 670,503 |
| 1980 | - | - | 631,723 |
| 1981 | 289,712 | 125,000 | 701,178 |
| 1982 | - | 200,000 | 842,413 |
| 1983 | - | 185,000 | 946,183 |
| 1984 | - | 78,000 | 924,008 |
| 1985 | - | - | 816,148 |
| 1986 | (993) | - | 706,883 |
| 1987 | - | - | 598,503 |
| 1988 | - | - | 489,818 |
| 1989 | (2,500) | - | 386,091 |
| 1990 | - | - | 290,531 |
| 1991 | - | - | 213,032 |
| 1992 | - | - | 159,383 |
| 1993 | - | - | 108,020 |
| 1994 | - | - | 78,192 |
| 1995 | - | - | 57,971 |
| 1996 | - | - | 39,101 |
| 1997 | - | - | 24,206 |
| 1998 | - | - | 10,891 |
| 1999 | - | - | 2,376 |
| 2000 | - | - | - |
| 2001 | - | - | - |
| 2002 | - | - | - |
| 2003 | 463,525 | 461,935 | 461,935 |
| 2004 | - | - | 461,935 |
| 2005 | - | - | 438,370 |
| 2006 | - | - | 414,250 |
| 2007 | - | - | 389,505 |
| 2008 | - | - | 364,065 |
| 2009 | 315,050 | 165,000 | 502,845 |
| 2010 | - | - | 475,740 |
| Total | \$ 2,175,632 | \$ 2,023,992 | |

¹ Does not include \$397.2 million of bonds approved November 2, 2010
 Source: Department of Administration, Comprehensive Annual
 Reports and Department of Revenue bond documents.

TABLE 2.3
General Obligation Bond Sales Since 1973

| date of bonds | average life in years | effective interest rate | underlying ratings Moody's, Standard & Poor's, & Fitch Ratings |
|----------------|-----------------------------|-------------------------------|---|
| Jan. 13, 1973 | 15.30 | 5.12% | Baa1/A |
| Jan. 13, 1973 | 14.80 | 5.10% | Baa1/A |
| Aug. 1, 1973 | 16.70 | 5.80% | Baa1/A |
| Sept. 1, 1974 | 15.60 | 6.85% | A1/A |
| Feb. 1, 1975 | 14.60 | 5.98% | A1/A+ |
| May 1, 1975 | 15.10 | 6.52% | A1/A+ |
| Oct. 1, 1975 | 12.50 | 6.85% | A1/A+ |
| Mar. 1, 1976 | 9.50 | 5.86% | A1/A+ |
| July 1, 1976 | 9.50 | 5.80% | A1/A+ |
| Feb. 1, 1977 | 9.50 | 5.08% | A1/A+ |
| Oct. 1, 1977 | 7.00 | 4.50% | A1/A+ |
| Apr. 1, 1978 | 7.00 | 4.86% | A1/A+ |
| Jan. 1, 1979 | 5.50 | 5.52% | A1/A+ |
| May 1, 1979 | 5.50 | 5.59% | A1/A+ |
| July 1, 1980 | 5.50 | 5.76% | Aa/AA- |
| Apr. 1, 1982 | 5.00 | 9.98% | Aa/AA- |
| Nov. 1, 1982 | 5.00 | 7.72% | Aa/AA- |
| Oct. 1, 1983 | 5.00 | 7.47% | Aa/AA- |
| May 1, 1994 | 2.30 | 4.88%* | Aa/AA/AA |
| April 1, 2003 | 9.09 | 3.84%* | Aa2/AA/AA |
| April 14, 2009 | 12.22 | 4.06% | Aa2/AA+/AA |

Source: Department of Administration and Department of Revenue bond files

Does not include December 7, 2010 bond \$200,000,000 bond issuance

* True interest cost

TABLE 2.4

General Obligation Bond Issues \$ (thousands)

| date | purpose | amount issued | ANIC ¹ |
|---------------------------|----------------------|---------------------|-------------------|
| June 1, 1958 ² | University of Alaska | \$ 1,290 | 2.97% |
| Aug. 1, 1958 ² | Military | 65 | 3.09% |
| Dec. 1, 1958 ² | University of Alaska | 537 | 3.51% |
| Dec. 1, 1958 ² | Military | 1,040 | 3.25% |
| July 1, 1961 | Transportation | 12,500 | 3.56% |
| July 1, 1961 | University of Alaska | 1,200 | 3.54% |
| July 1, 1961 | Airport | 275 | 3.00% |
| July 1, 1962 | Transportation | 5,500 | 3.56% |
| July 1, 1962 | University of Alaska | 800 | 3.23% |
| July 1, 1962 | Airport | 275 | 2.94% |
| July 1, 1962 | Hospital | 354 | 2.94% |
| April 1, 1963 | University of Alaska | 2,650 | 3.33% |
| April 1, 1963 | Education | 2,700 | 3.33% |
| April 1, 1963 | Airport | 1,550 | 3.33% |
| April 1, 1963 | Education | 600 | 3.10% |
| Jan. 1, 1964 | Various | 7,865 | 3.56% |
| Oct. 1, 1966 | Various | 12,485 | 3.75% |
| Oct. 1, 1966 | Various | 2,600 | 3.75% |
| May 1, 1967 | Various | 16,500 | 4.50% |
| Sept. 1, 1967 | Transportation | 10,500 | 4.90% |
| April 1, 1968 | Various | 15,500 | 5.18% |
| Oct. 1, 1968 | Various | 10,500 | 5.24% |
| May 1, 1969 | Transportation | 8,500 | 5.73% |
| July 1, 1969 | Various | 10,500 | 5.69% |
| Sept. 1, 1969 | Various | 8,200 | 5.62% |
| Oct. 1, 1969 | University | 2,030 | 3.00% |
| Mar. 1, 1970 | Various | 11,501 | 5.49% |
| July 1, 1970 | Various | 12,900 | 5.91% |
| Sept. 1, 1970 | Various | 11,325 | 5.87% |
| Feb. 1, 1971 | Various | 21,325 | 5.07% |
| June 1, 1971 | Various | 18,880 | 6.03% |
| June 1, 1971 | University | 3,750 | 6.04% |
| June 1, 1971 | University | 1,200 | 6.00% |
| Feb. 1, 1972 | Various | 23,445 | 5.23% |
| May 1, 1972 | Various | 30,000 | 5.15% |
| Jan. 1, 1973 | Transportation | 20,000 | 5.12% |
| June 1, 1973 | Various | 27,000 | 5.10% |
| Aug. 1, 1973 | Various | 31,000 | 5.80% |
| Sept. 1, 1974 | Various | 30,000 | 6.85% |
| Feb. 1, 1975 | Various | 40,300 | 5.98% |
| May 1, 1975 | Various | 42,000 | 6.52% |
| Oct. 1, 1975 | Various | 42,915 | 6.85% |
| March 1, 1976 | Various | 40,000 | 5.86% |
| July 1, 1976 | Various | 40,000 | 5.80% |
| Feb. 1, 1977 | Various | 40,000 | 5.08% |
| Oct. 1, 1977 | Various | 40,000 | 4.50% |
| April 1, 1978 | Various | 45,000 | 4.86% |
| Jan. 1, 1979 | Various | 40,000 | 5.52% |
| May 1, 1979 | Various | 60,000 | 5.59% |
| July 1, 1980 | Various | 125,000 | 5.76% |
| April 1, 1982 | Various | 200,000 | 9.98% |
| Nov. 1, 1982 | Various | 185,000 | 7.72% |
| Oct. 1, 1983 | Various | 78,000 | 7.47% |
| May 1, 1994 | Refunding | 46,620 | 4.88% |
| April 1, 2003 | Various | 461,935 | 3.84% |
| April 14, 2009 | Transportation | 165,000 | 4.06% |
| Total ³ | | <u>\$ 2,023,992</u> | |

¹ ANIC - Average Net Interest Cost, until October 1, 1983, TIC since

² State assumed obligation of Territory.

³ Excluded May 1, 1994 refunding bonds

Source: State Bond Committee records.

TABLE 2.5
General Obligation Debt
Issued by Purpose
 \$ (thousands)

| purpose | amount issued | percentage |
|--------------------------------------|---------------------|---------------|
| Transportation | \$ 933,463 | 46.1% |
| Education | 623,922 | 30.8% |
| Water and Sewer | 135,640 | 6.7% |
| Fish, Game, and Recreation | 93,099 | 4.6% |
| Public Safety (Fire and Corrections) | 86,544 | 4.3% |
| Flood Control and Harbor Development | 75,790 | 3.7% |
| Health and Housing | 75,534 | 3.7% |
| Total | \$ 2,023,992 | 100.0% |

Source: Bonded Debt Service, State of Alaska.

2. Lease-Purchase Financing

a. General

Lease-purchase financing involves the issuance, by a lessor, of debt which is secured by the lease payments from the lessee (State) and by the leased facilities.

Lease-purchase obligations and capital leases may provide for the acquisition of the property by the lessee by the end of the lease. Alternatively, the term of the lease, the lease payments, or purchase option price are such that the lessee (State) is considered the owner of the property for accounting, credit, or federal tax purposes from the outset of the lease. As a result, the interest portion of the lease payments is treated as tax-exempt interest income under the federal income tax.

A lease-purchase financing obligation may take the form of either revenue bonds or certificates of participation. In cases where the State is the lessee, the fact that the lease payments are subject to annual appropriations precludes the obligations from being considered State debt under the Constitution and thus requiring voter approval. However, because the debt obligation is paid from the State's General Fund, these obligations are counted by the rating agencies in measuring the State's debt burden.

b. Certificates of Participation (COP's)

Certificates of participation in rent (COP's) are similar to lease revenue bonds. The certificates represent fractional interests or shares in lease payments from lessees, in this case the State, and are sold to finance construction or purchase of the leased facilities. The issuer can be a private developer, public agency, or other party acting as lessor. It can be the State itself, utilizing a trustee to hold title to the property and serve as lessor.

COP's are payable solely from the annual lease payments made by the State. These payments are subject to legislative appropriation. Therefore, COP's are not considered State debt and are not subject to voter approval.

c. Capital Leases

The State is a lessee in four facilities that qualify as capital leases and have associated lease financing, the Atwood Building and parking garage financed by general obligation bonds of the Alaska Housing Finance Corporation, the Anchorage Jail financed by lease revenue bonds of the Municipality of Anchorage, and the Goose Creek Correctional Facility financed by lease revenue bonds of the Matanuska Susitna Borough. In these financings, legislation authorized the leases to be pledged as security. The State may acquire the Atwood

Building at the term of the lease, the State will own the Goose Creek Correctional Facility at the term of the lease, and the State will pay the full cost of the constructing the Anchorage Jail. Accordingly, the financings qualify as lease-purchase from an accounting, credit, or federal tax standpoint. In other state facility leases, the leases do not qualify as lease-purchases, and are called operating leases.

The following Table 2.6 summarizes issued and outstanding COPs.

TABLE 2.6
State of Alaska Lease-Purchase Financing
Outstanding \$ (thousands)

| <u>Certificates of Participation (COP's)</u> | | | | |
|--|-----------|------------------|------------------|----------------|
| | date | amount issued | 6/30/2010 | final maturity |
| Alaska Psychiatric Institute | 4/15/2002 | 16,000 | 9,670 | 7/15/2016 |
| Seafood and Food Safety Lab | 8/1/2003 | 14,145 | 9,300 | 1/15/2019 |
| Refunding Certificates of Participation 2005 A (1) | 1/15/2005 | 25,725 | 7,770 | 2/15/2013 |
| State Virology Laboratory Facility 2005 B | 10/1/2005 | 24,000 | 18,865 | 2/1/2021 |
| Total Certificates of Participation | | \$ 79,870 | \$ 45,605 | |

¹ The Fairbanks Courthouse and Palmer Fire Facility as well as portions of the Soldotna Maintenance Facility and Anchorage Health Lab were refunded in 2005
Source: Department of Revenue official statements

International Airport System Revenue Bonds

Bonds have been issued to finance improvements to the State's two international airports and are secured by a first lien on gross revenues derived from airport operations. The Commissioner of Transportation and Public Facilities is required by each bond resolution to fix and collect fees, charges, and rentals for the use of facilities of the International Airports sufficient each year to provide adjusted net revenues at least equal to 125 percent of debt service requirements during that year. Table 2.8 indicates that over the past ten fiscal years, adjusted net revenues have exceeded the amount required to pay debt service. In 2009, the State entered into a new rate and fee agreements with air carriers using the airports. The rents and fees calculated according to the agreements are airline terminal building rental rates, landing fees, international terminal docking fees, passenger loading bridge fees, and charges relating to federal inspection services. The agreements also establish procedures for review and adjustment of airline rents and fees for each fiscal year to ensure that revenues are sufficient to meet operations and maintenance expenses, debt service requirements of the revenue bonds and other funding requirements established by the resolution authorizing issuance of the revenue bonds.

The Alaska International Airport System bonds carry ratings of Aa3 by Moody's and A+ by Fitch Ratings.

The following Tables 2.7 and 2.8 provide additional information on the Airport Revenue Bonds.

TABLE 2.7
International Airports System
Debt Issued and Outstanding
 \$ (thousands)

| revenue bonds | date | amount issued | outstanding at 6/30/10 | interest rate (%) | final maturity |
|--------------------|-----------|-------------------|------------------------|-------------------|----------------|
| Series A | 6/1/1968 | \$ 7,000 | - | 5.69 | 6/1/1988 |
| Series B | 6/1/1969 | 2,225 | - | 6.39 | 6/1/1989 |
| Series C | 6/1/1971 | 6,500 | - | 7.23 | 6/1/1996 |
| Series D | 6/1/1973 | 8,500 | - | 5.85 | 6/1/1998 |
| Series E | 2/1/1975 | 10,600 | - | 7.48 | 6/1/1992 |
| Series F | 8/1/1983 | 28,000 | - | 9.46 | 8/1/1999 |
| Series G | 10/1/1986 | 38,000 | (defeased) | 7.80 | 10/1/2015 |
| Series H | 8/1/1993 | 15,690 | - | 4.50 | 10/1/1999 |
| Series I | 8/1/1993 | 34,755 | (defeased) | 5.67 | 10/1/2015 |
| Series 1999 A | 1/15/1999 | 162,500 | 122,910 | 4.99 | 10/1/2024 |
| Series 1999 B | 1/15/1999 | 16,675 | 3,975 | 4.87 | 10/1/2015* |
| Series 1999 C | 10/1/1999 | 25,000 | 18,690 | 6.05 | 10/1/2024 |
| Series 2002 A | 4/1/2002 | 13,060 | - | 4.59 | 10/1/2007 |
| Series 2002 B | 4/1/2002 | 127,720 | 19,710 | 5.47 | 10/1/2015* |
| Series 2003 A | 12/3/2003 | 73,025 | 50,030 | 4.64 | 10/1/2022 |
| Series 2003 B | 12/3/2003 | 21,900 | 21,900 | 5.12 | 10/1/2028 |
| Series 2006 A | 12/3/2003 | 118,975 | 98,850 | 4.41 | 10/1/2022 |
| Series 2006 B | 12/3/2003 | 70,760 | 70,760 | 4.61 | 10/1/2027 |
| Series 2006 C | 12/3/2003 | 50,000 | - | Variable | 10/1/2030 |
| Series 2006 D* | 12/3/2003 | 104,860 | 104,730 | 4.47 | 10/1/2027 |
| Series 2009 A | 1/6/2009 | 50,000 | 50,000 | variable | 10/1/2030 |
| Total Bonds | | <u>\$ 985,745</u> | <u>\$ 561,555</u> | | |

The 2006 D bonds refunded portions of the 1999 B and 2002 B bonds shortening the final maturity

Source: State of Alaska financial statements, International Airports.

TABLE 2.8
International Airports System Revenue Bonds

| fiscal year | net revenue (\$ millions) | debt service (\$ millions) ¹ | ratio net revenues to debt service ² |
|-------------|------------------------------|--|---|
| 1983 | 7.7 | 2.4 | 3.23 |
| 1984 | 9.1 | 1.5 | 6.16 |
| 1985 | 20.1 | 6.0 | 3.42 |
| 1986 | 22.4 | 5.5 | 4.10 |
| 1987 | 20.1 | 6.9 | 2.90 |
| 1988 | 28.9 | 8.3 | 3.47 |
| 1989 | 30.9 | 8.6 | 3.59 |
| 1990 | 21.4 | 8.6 | 2.49 |
| 1991 | 18.1 | 8.6 | 2.10 |
| 1992 | 12.0 | 8.6 | 1.41 |
| 1993 | 10.5 | 7.6 | 1.38 |
| 1994 | 10.6 | 2.8 ³ | 3.79 |
| 1995 | 15.6 | 5.6 | 2.79 |
| 1996 | 17.9 | 5.7 | 3.14 |
| 1997 | 19.7 | 5.7 | 3.46 |
| 1998 | 20.7 | 5.7 | 3.63 |
| 1999 | 16.3 | 5.7 | 2.86 |
| 2000 | 18.9 | 4.8 | 3.94 |
| 2001 | 37.4 | 15.2 | 2.46 |
| 2002 | 30.5 | 15.2 | 2.01 |
| 2003 | 33.9 | 17.6 | 1.93 |
| 2004 | 33.0 | 22.1 | 1.49 |
| 2005 | 48.7 | 31.1 | 1.57 |
| 2006 | 43.7 | 32.4 | 1.35 |
| 2007 | 58.4 | 45.4 | 1.29 |
| 2008 | 62.7 | 49.1 | 1.28 |
| 2009 | 38.0 | 17.9 | 2.12 |
| 2010 | 52.6 | 35.4 | 1.48 |

1 Required coverage of 1.3 until 1999.

2 Since 1999 coverage of 1.25 is required.

Excludes debt service bonds which are defeased

Source: AIAS, Comprehensive Annual Report

3. Revenue Anticipation Notes (RAN's)

There have been no RAN's issued.

4. Toll Facilities' Revenue Bonds

Legislation enacted in 1984 authorizes the issuance of State revenue bonds for toll bridges, tunnels, highways, roads, crossings, and causeways. Under AS 37.15.610, the maximum amount of toll facilities bonds that may be issued is \$500 million. No bonds have been issued. Legislative approval of bonds to be issued and an appropriation of bond proceeds are required before any project proceeds.

Section 5 of Chapter 165, SLA 1988 mandates the construction of the Copper River highway as a toll facility subject to the availability of certain federal funds. The possible use of revenue bonds to finance all or part of the project has not been determined or approved by the Legislature.

B. State Agencies (Alphabetically)

1. Alaska Aerospace Development Corporation

The Alaska Aerospace Development Corporation was created in 1991 as a public corporation of the State. It is located for administrative purposes within the Department of Commerce and Economic Development and affiliated with the University of Alaska but with a separate and independent legal existence. The purpose of the Corporation is to allow the State to take a lead role in the exploration and development of space, to enhance human and economic development, to provide a unified direction for space-related economic growth, education, tourism, research development, and improve the entrepreneurial atmosphere in the State.

The Corporation may issue moral obligation bonds and otherwise incur indebtedness in order to pay the cost of a project or projects to construct or improve launch facilities or other space and aerospace projects or in order to provide money for the Corporation's purposes. Original bond issues in excess of \$1,000,000 each calendar year must have legislative approval. In addition, legislative approval is required if the annual debt service on all outstanding bonds issued and bonds proposed to be issued exceeds \$1,000,000 in a fiscal year. The Corporation has not issued any bonds.

2. Alaska Energy Authority

The Alaska Energy Authority (AEA) was created by the Alaska State Legislature in 1976 to finance, construct, and operate power production and transmission facilities. In May of 1993, the Alaska Legislature passed a bill which set in motion a fundamental change in the State's role in energy programs and oversight of State owned power projects.

In May of 1993, Governor Hickel signed legislation that substantially revised the duties and responsibilities of the independent corporate entity that was AEA and created a new Division of Energy within the Department of Community and Regional Affairs. Effective August 18, 1993, this new division took on the Authority's rural programs and planning as well as the responsibility and management for a number of small electrical and waste heat recovery systems located throughout Alaska. The Board of the Alaska Industrial Development and Export Authority (AIDEA) also became the Board of AEA and the ability to have employees was eliminated. AEA continues to exist as a public corporation responsible for, among other things, its outstanding bonds, but its ability to construct and acquire projects was eliminated.

From 1993 through mid-1999 AEA existed for the purpose of owning and operating power production and transmission facilities with original costs in excess of \$1 billion. AEA's assets currently include the Bradley Lake hydroelectric project and the Alaska Intertie. The Four Dam Pool hydroelectric facilities (Swan Lake, Tyee Lake, Terror Lake and Solomon Gulch) were sold in January 2002. The Larsen Bay hydroelectric project was transferred to the City of Larsen Bay in September 2010.

Pursuant to legislation effective July 1, 1999, rural energy programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration as part of a larger reorganization of state agencies. Five general energy programs, including the rural energy programs originally part of AEA prior to the 1993 reorganization, comprising more than twenty smaller programs were moved to AEA.

a. Debt Issued and Outstanding

Legislation that became effective in August, 1981 established an Energy Program for Alaska administered by AEA. Under the Energy Program, AEA was able to acquire or construct power projects with money appropriated by the Legislature to the Power Development Fund. Debt issued under the Energy Program was secured by power sales contracts which provided that each project constructed under the program bears charges to service the debt based on its pro-rata share of the construction costs of all projects of the program.

AEA issued short-term debt in the amount of \$200 million to finance construction of three hydroelectric projects known as the Four Dam Pool Hydroelectric Projects under the Energy Program for Alaska. In 1984, a State appropriation was enacted to the Department of Commerce and Economic Development for a loan to AEA to refinance the short-term debt. A loan agreement eventually totaling \$192,847,000 was executed on September 27, 1984 to meet the maturities of the short-term debt:

In 1982, AEA assumed \$44,858,858 of debt payable to the Rural Electrification Association (REA) in connection with the Solomon Gulch hydroelectric project, the fourth dam in the Four Dam Pool. At the same time that AEA assumed the REA debt, it deposited an amount with a trustee sufficient to defease the debt.

Legislation enacted into law in 1985 exempted Four Dam Pool wholesale power rates from provisions of the Energy Program for Alaska that tie rates to total debt issued under the program. As a result, power sales agreements effective October 28, 1985 were signed that provided the means for AEA to repay the State loans.

A new loan agreement for \$187,480,249 effective concurrently with the power sales agreements was executed providing for repayment of State loans at approximately 6 percent interest with a 45-year term. On September 22, 1986, the State lent AEA an additional \$1 million under the loan agreement to reimburse local communities for their costs in negotiating the power sales agreements. The loan was secured by the hydroelectric facilities of the Pool and any AEA revenues from power sales from the facilities.

In January 2002, pursuant to legislation enacted in 2000 and 2001, the Four Dam Pool projects were sold to The Four Dam Pool Power Agency, a joint action agency. At the time of sale the Agency's membership was composed solely of the utilities that purchase power from the Four Dam Pool projects. Under the terms of the Sale, the Agency was assigned all of AEA's interest and assumed all of AEA's obligations in the Four Dam Pool projects and the Power Sales agreement. As part of the transaction, the remaining balance of debt owed to the State was forgiven.

On November 20, 1985, \$267,500,000 of AEA bonds were issued to provide interim financing for a fifth project under the Energy Program for Alaska, the Bradley Lake hydroelectric project. The bonds were general obligations of the Authority and were secured by bank letters of credit and a capital reserve fund. The bonds were retired in fiscal year 1991.

Power Revenue Bonds, First and Second Series, were issued in September, 1989 and August, 1990, respectively. They were used to refund AEA's Variable Rate Demand Bonds for the long term financing of the construction costs of the Bradley Lake Hydroelectric Project.

On April 6, 1999 AEA issued \$59,485,000 of Power Revenue Refunding Bonds, Third Series, for the purpose of refunding \$59,110,000 of the First Series Bonds. The refunded First Series Bonds were called on July 1, 1999.

On April 13, 1999, AEA issued \$30,640,000 of Power Revenue Refunding Bonds, Fifth Series, for the purpose of refunding \$28,910,000 of the First Series Bonds. The refunded First Series Bonds were called on July 1, 1999.

On April 4, 2000, AEA issued \$47,710,000 of Power Revenue Refunding Bonds, Fourth Series, for the purpose of refunding \$46,235,000 of the Second Series Bonds. The refunded Second Series Bonds were called on July 1, 2000.

In July 2010 AEA issued \$28,800,000 of power revenue refunding bonds, sixth series, to refund \$30,640,000 aggregate outstanding principal amount of the AEA power revenue bonds, fifth series, and to pay costs of issuing the bonds. The refunded bonds were called on August 2, 2010.

The bonds related to the Bradley Lake project are general obligations of AEA and have a capital reserve fund backed by the moral obligation of the State of Alaska. The project and all of the revenues derived by AEA from the operation of the Bradley Lake Project and all moneys, securities and funds (except the excess earnings fund), including a capital reserve fund, held or set aside are pledged and assigned to secure the payment of principal, redemption premium, if any, and interest on the Bradley Lake bonds. AEA has covenanted to notify the State Legislature of any failure to maintain the capital reserve fund at its required level. The bonds are further secured by bond insurance. AEA collects from each power purchaser a percentage share of annual project costs. A portion of the outstanding Bradley Lake bonds mature annually each July 1 through the year 2021 with interest rates ranging from 5.0% to 6.25% there are also capital appreciation bonds outstanding.

In 1991, a power sales agreement was signed between AEA and the City of Larsen Bay. Bonds totaling \$855,000 were issued to provide funds to complete the financing and construction of an earth filled dam to generate power for Larsen Bay. The bonds were secured by a letter of credit. In June 2002, all remaining outstanding bonds were defeased and the bonds were called on October 1, 2002.

In May 1992, AEA issued \$56,890,000 of tax-exempt bonds that allowed the City and Borough of Sitka (Sitka) to refinance its 1979 municipal bonds, resulting in significant debt service savings to Sitka. In November 1997, AEA issued \$22,080,000 of tax-exempt bonds to advance refund and defease \$20,145,000 of the Series 1992 bonds (collectively with the Series 1992 bonds, the Sitka Bonds). As of June 30, 2010, the outstanding balance was \$35,285,000.

The Sitka Bonds are special obligations of AEA secured under a trust indenture by and between AEA and US Bank Trust National Association as trustee and are payable solely from the sources provided under the trust indenture. They are equally and ratably secured by a pledge and assignment of the municipal revenue bonds of Sitka held by AEA under the trust indenture, the obligation of Sitka to make payments under its loan agreement with the AEA and the money and securities held under the trust indenture, including a capital reserve fund. AEA has covenanted to notify the State Legislature of any failure to maintain the capital reserve fund at its required level. The bonds are further secured by bond insurance.

The Sitka bonds do not constitute an indebtedness or other liability of the State, including AEA, and do not directly, indirectly or contingently obligate the State, including AEA, or any political subdivision thereof to levy any form of taxation for the payment of the bonds. Neither the full faith and credit nor the taxing power of the State, including AEA, or Sitka is pledged for the payment of the Sitka Bonds.

At June 30, 2010, AEA's outstanding debt was \$142.9 million, as shown below in Table 2.9.

TABLE 2.9
Alaska Energy Authority
Debt Issued and Outstanding
 \$ (thousands)

| | date | amount issued | outstanding at 6/30/10 | final maturity |
|--|------------|---------------|---------------------------|----------------|
| Variable Rate Demand Note (Bradley Lake Hydroelectric Project) | 9/7/1989 | 111,755 | 100 | 7/1/2021 |
| Power Revenue Bonds, Second Series (Bradley Lake Hydroelectric Project) | 8/28/1990 | 68,445 | 2,305 | 7/1/2010 |
| Power Revenue Bonds, Third Series (Bradley Lake Hydroelectric Project) | 4/6/1999 | 59,485 | 37,720 | 7/1/2017 |
| Power Revenue Bonds, Fourth Series (Bradley Lake Hydroelectric Project) | 4/4/2000 | 47,710 | 36,895 | 7/1/2021 |
| Power Revenue Bonds, Fifth Series (Bradley Lake Hydroelectric Project) | 4/13/1999 | 30,640 | 30,640 | 7/1/2021 |
| Utility Revenue Bonds (City and Borough of Sitka) | 5/14/1992 | 56,890 | 15,000 | 7/1/2015 |
| Utility Revenue Refunding Bonds (City and Borough of Sitka) | 11/25/1997 | 22,080 | 20,285 | 7/1/2020 |
| Total | | \$ 397,005 | \$ 142,945 | |

Source: Alaska Energy Authority financial statements.

3. Alaska Housing Finance Corporation

The Alaska Housing Finance Corporation (AHFC) is a public corporation administratively located within the Department of Revenue but with a separate and independent legal existence. AHFC was chartered in 1971 to provide financing for low and moderate income housing and housing located in remote, underdeveloped, or blighted areas of the State. Effective July 1, 1992, the Alaska State Housing Authority (ASHA) was abolished and the duties assigned to it were transferred to the Alaska Housing Finance Corporation. Assets transferred to AHFC totaled \$94.2 million. Liabilities transferred were \$82.8 million, of which \$61 million represented bonds and notes payable.

Since 1980, when AHFC's powers were expanded by removing borrower income restrictions, the Corporation has emerged as a major supplier of mortgage funds in the State, in addition to being the largest issuer of debt (taxable and tax-exempt). Table 3.0 indicates the amounts of AHFC borrowing since 1973.

TABLE 3.0
Alaska Housing Finance Corporation
Debt Issued by Fiscal Year Ending June 30
 \$ (thousands)

| fiscal year | debt issued |
|--------------|-----------------------------------|
| 1973-1980 | \$ 655,395 |
| 1981-1990 | 7,065,380 |
| 1991 | 806,104 |
| 1992 | 452,760 |
| 1993 | 200,000 |
| 1994 | 384,060 |
| 1995 | 365,000 |
| 1996 | 365,000 |
| 1997 | 599,836 |
| 1998 | 470,405 |
| 1999 | 92,365 |
| 2000 | 883,435 |
| 2001 | 409,670 |
| 2002 | 884,150 |
| 2003 | 382,710 |
| 2004 | 287,200 |
| 2005 | 412,730 |
| 2006 | 333,675 |
| 2007 | 1,192,873 |
| 2008 | 234,290 |
| 2009 | 287,640 |
| 2010 | 354,840 |
| Total | \$ 17,119,518 ¹ |

Source: Alaska Housing Finance Corporation

Includes AHFC sponsored conduit and subsidiary issued debt but not public housing (ASHA)

The bonds issued by AHFC are secured by the general obligation pledge of the Corporation and mortgages purchased with bond proceeds or, in the case of collateralized debt, by mortgage-backed securities as more fully explained below. AHFC subsidiary issued debt is not secured by the general obligation of the corporation but rather by pledged receipts paid to the state under the Master Settlement Agreement.

Additional security features on various AHFC debt obligations may include federal or private mortgage insurance on individual mortgage loans, mortgage pool insurance, bank loan facility or letter of credit arrangements in the event mortgage prepayments are less than anticipated by the bond redemption schedule, bond insurance, and the full faith and credit guarantee of the State on veterans' mortgage bonds.

a. Federal Tax-Exemption and Ceilings

The Federal Tax Reform Act of 1984 established a ceiling of \$302.5 million, in the case of Alaska, for annual issuance of qualified veterans' mortgage bonds on a tax-exempt basis. The Act also makes more restrictive the definition of those who qualify as veterans.

Since 1980, when the Mortgage Subsidy Bond Tax Act was enacted, Alaska also had been subject to a \$200 million annual ceiling on tax-exemption for qualified mortgage revenue bonds (AHFC Home Mortgage Bonds, also known as AHFC's first-time home-buyer bonds). AHFC's allocation and usage of PAB is presented in Table 5.4.

b. Bond Authorization

AS 18.56.110(g) which took effect in FY 1982 placed a statutory ceiling on AHFC annual bond issuance for the first time. The annual issuance amount currently authorized is \$1,500 million.

c. Security for Debt

Included in the above amounts are State Guaranteed veterans' bonds which were authorized by law and the voters in the following amounts (in millions):

| <u>Authorization Calendar Year</u> | <u>Authorized</u> | <u>Issued as of June 30, 2010</u> |
|--|-------------------|---------------------------------------|
| 1982 | 400.0 | 400.0 |
| 1983 | 500.0 | 500.0 |
| 1984 | 700.0 | 700.0 |
| 1986 | 600.0 | 600.0 |
| 2002 | 500.0 | 404.9 |
| Total: | <u>3,200.0</u> | <u>2,605.4</u> |

As of June 30, 2010, \$95.1 million of state guaranteed bonds remain unissued. On November 2, 2010 Alaskan voters approved an additional \$600 million of State Guaranteed veterans' bonds.

d. Debt Issued and Outstanding

Table 3.1 summarizes AHFC debt issued and outstanding by type of debt.

TABLE 3.1
ALASKA HOUSING FINANCE CORPORATION
Debt Issued and Outstanding by Type of Debt
\$ (thousands)

| | credit rating | Debt Issued In FY 2010 | Total debt issued | debt outstanding ; 6/30/10 |
|--|------------------------------|---------------------------|----------------------|----------------------------------|
| Collateralized HMB & Mortgage Revenue Bonds | Aaa/AAA (see note below) | 354,840 | 3,193,953 | \$ 1,478,440 |
| Collateralized Bonds (Veterans Mortgage Program) | Aaa/AAA | - | 1,740,385 | 300,335 |
| General Mortgage Revenue Bonds 2002 Series A | Aaa/AAA/AAA | - | 150,000 | 148,825 |
| Housing Development Bonds 2002 Series A-D | Aaa,VMIG-1/AAA,A-1/AAA,F | - | 125,000 | 69,240 |
| Housing Development Bonds 2004 Series A-C | Aaa,AAA,A/AAA, | - | 127,210 | 71,215 |
| Housing Development Bonds 2004 Series D | Aaa,AAA,A/AAA, | - | 105,000 | 103,040 |
| General Housing Purpose Bonds 2005 Series A | Aaa/AAA/AAA | - | 143,235 | 138,570 |
| General Housing Purpose Bonds 2005 Series B&C | Aaa/AAA/AAA | - | 164,495 | 147,270 |
| Governmental Purpose Bonds 1997 Series A | Aaa/AAA/AAA | - | 33,000 | 14,600 |
| Governmental Purpose Bonds 2001 Series A-D | Aaa,VMIG-1/AAA,A-1+/AAA,F-1+ | - | 370,170 | 137,650 |
| State Capital Project Bonds 2002 Series A-C | Aaa/AAA/AAA | - | 107,710 | 68,775 |
| State Capital Project Bonds 2006 Series A | Aaa/AAA/AAA | - | 100,890 | 95,510 |
| State Capital Project Bonds 2007 Series A-B | Aa2/AA/AA+ | - | 95,525 | 91,355 |
| NTSC, a subsidiary of AHFC: | | | | |
| Tobacco Settlement Asset-Backed Bonds, Series 2006 A-C | Baa/ - /BBB (3) | - | 411,988 | 380,383 |
| Total | | <u>\$ 354,840</u> | <u>\$ 6,868,561</u> | <u>\$ 3,245,208</u> |

TABLE 3.1 (Continued)
ALASKA HOUSING FINANCE CORPORATION
Debt Issued and Outstanding by Type of Debt
 \$ (thousands)

NOTES:

- 1 Ratings from Moody's, Standard & Poor's, & Fitch
- 2 Ratings for Collateralized Home Mortgage Revenue Bonds sold from 2007-2009 are Aa2/AA/AA+
- 3 Not rated by Standard & Poor's

| | Credit rating as of 6/30/2010 | Debt issued in FY 2010 | Total Debt Issued | Debt outstanding at 6/30/10 |
|-----------------------------|-------------------------------|------------------------|-------------------|-----------------------------|
| Short-term debt outstanding | | | | |
| Commercial Paper | P-1/A-1+/F-1+ | N/A | N/A | 150,000 |
| Total | | | | \$ 150,000 |

e. Collateralized and Insured Bonds

Collateralized bonds, which incorporate the guarantees of the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and the Government National Mortgage Association (GNMA), should relieve concern about potential contingent liability to the State for that portion of AHFC indebtedness represented by such bonds. This is particularly reassuring in the case of State Guaranteed bonds (veterans' mortgage program) for which the full faith and credit of the State has been pledged.

The underlying conventional mortgages of AHFC's collateralized bonds issued during part or prior to July 1993 were exchanged for mortgage-backed certificates through FHLMC, FNMA or GNMA. The certificates, and the mortgage payments thereon, are pledged to the bond trustee as security for the bonds. FHLMC, FNMA, and GNMA guarantee that the certificate holder, in this case the bond trustee and thus the bondholders, will receive the principal and interest when due. As of September 1, 1004 all FNMA mortgage-backed certificates were redeemed and replaced by the underlying pooled mortgage loans.

Collateralized bonds lower the cost of funds to AHFC. Collateralized bonds issued after July 1993 are structured to achieve "Triple A" ratings on the basis of the pledged whole loan collateral. Table 3.2 lists collateralized obligations.

TABLE 3.2
Alaska Housing Finance Corporation
Collateralized Debt Obligations
 \$ (thousands)

| issue | Tax Status | debt issued | date of bonds | guarantor | 06/30/10 debt outstanding |
|---|------------|----------------|---------------|-----------------|------------------------------|
| Collateralized Bonds (Veterans Mortgage Program) | | | | | |
| 1999 First Series | Exempt | 110,000 | 10/28/1999 | State of Alaska | 28,255 |
| 2000 First Series | Exempt | 70,000 | 6/14/2000 | State of Alaska | 14,545 |
| 2002 First Series | Exempt | 50,000 | 4/4/2002 | State of Alaska | 12,510 |
| 2005 First/Second Series | Exempt | 160,000 | 12/29/2005 | State of Alaska | 9,340 |
| 2006 First Series | Exempt | 190,000 | 9/19/2006 | State of Alaska | 181,005 |
| 2007 and 2008 First Series | Exempt | 57,885 | 12/18/2007 | State of Alaska | 54,680 |
| Total | | 637,885 | | | 300,335 |

TABLE 3.2 (Continued)
Alaska Housing Finance Corporation
Collateralized Debt Obligations
\$ (thousands)

| Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds | | | | | |
|--|--------|---------------------|------------|---|---------------------|
| 1998 Series A | Exempt | 70,000 | 6/17/1998 | * | 14,585 |
| 1999 Series A | Exempt | 200,000 | 11/17/1999 | * | 56,205 |
| 2000 Series A | Exempt | 58,315 | 11/14/2000 | * | 28,920 |
| 2000 Series C | Exempt | 68,785 | 11/14/2000 | * | 20,015 |
| 2001 Series A | Exempt | 32,740 | 10/17/2001 | * | 14,665 |
| 2001 Series B | Exempt | 104,450 | 10/17/2001 | * | 33,195 |
| 2002 Series A | Exempt | 170,000 | 5/16/2002 | * | 167,060 |
| 2006 Series A | Exempt | 98,675 | 1/26/2006 | * | 70,790 |
| 2006 Series B | Exempt | 75,000 | 3/23/2006 | * | 50,795 |
| 2006 Series C | Exempt | 75,000 | 7/20/2006 | * | 53,835 |
| 2007 Series A | Exempt | 75,000 | 5/31/2007 | * | 75,000 |
| 2007 Series B | Exempt | 75,000 | 5/31/2007 | * | 75,000 |
| 2007 Series C | Exempt | 89,370 | 5/31/2007 | * | 74,145 |
| 2007 Series D | Exempt | 89,370 | 5/31/2007 | * | 89,370 |
| 2008 Series A | Exempt | 80,880 | 2/28/2008 | * | 64,415 |
| 2008 Series B | Exempt | 80,880 | 9/30/2008 | * | 73,845 |
| 2009 Series A (HMRB) | Exempt | 80,880 | 5/28/2009 | * | 80,880 |
| 2009 Series B | Exempt | 80,880 | 5/28/2009 | * | 80,880 |
| 2009 Series C | Exempt | 80,880 | 8/26/2009 | * | 80,870 |
| 2009 Series D | Exempt | 80,880 | 8/26/2009 | * | 80,870 |
| 2009 Series A (MRB) | Exempt | 80,880 | 12/23/2009 | * | 193,100 |
| Total | | <u>1,847,865</u> | | | <u>1,478,440</u> |
| General Mortgage Revenue Bonds | | | | | |
| Series 2002 | Exempt | <u>150,000</u> | 10/15/2002 | * | <u>148,825</u> |
| Total | | <u>150,000</u> | | | <u>148,825</u> |
| Governmental Purpose Bonds | | | | | |
| Series 1997 | Exempt | 33,000 | 12/3/1997 | * | 14,600 |
| Series 2001 A,B | Exempt | <u>170,170</u> | 8/2/2001 | * | <u>137,650</u> |
| Total | | <u>203,170</u> | | | <u>152,250</u> |
| Total AHFC Collateralized Debt | | <u>\$ 2,838,920</u> | | | <u>\$ 2,079,850</u> |

During 1985, FNMA decided that it would enter into additional agreements for purchase of AHFC mortgages only if FNMA would have recourse against AHFC for foreclosed properties. With recourse, AHFC's obligation is to buy back the mortgage loans on the foreclosed properties.

Even with recourse to AHFC, the FNMA guarantee still provides an extra layer of insulation for the State from any obligation on AHFC collateralized debt. In the case of collateralized veterans' bonds, the State's guarantee would not be called upon in the event of default on the bonds prior to a default by FNMA on its guarantee. With respect to any other type of collateralized bond, the State has no obligation to step in should AHFC's assets be insufficient to satisfy any recourse. As of September 1, 2004 all FNMA mortgage-backed certificates were redeemed and replaced by the underlying pooled mortgage loans.

AHFC has always been responsible for foreclosure losses on any mortgages supporting GNMA certificates. However, such losses are minimized by the fact that GNMA only guarantees certificates representing pools of mortgages which are FHA insured or VA guaranteed. With the exception of certain mortgage loans, FHLMC does not have recourse against AHFC for losses on foreclosure.

Some bonds of AHFC are subject to bond guaranty insurance. The bond guarantor assures the holder of the debt that interest and principal will be repaid. The effect of the bond guarantee is to provide security in addition to specifically pledged collateral and the pledge of AHFC unrestricted resources.

TABLE 3.3
State Obligations on
Alaska Housing Finance Corporation Debt
\$ (thousands)

| | |
|--------------------------------------|---------------------------|
| | outstanding at 6/30/10 |
| State General Obligation Guarantee | |
| Collateralized Bonds AAA/AAA | \$ 300,335 |
| Total State Obligations On AHFC Debt | 300,335 |

f. Mortgage Reorigination

Mortgage reorigination included in a bond indenture permits AHFC to use payments and prepayments on mortgage loans securing the bond issue to purchase new mortgage loans only to the extent the payments and prepayments are in excess of debt service requirements. The recycling of mortgage loans is also limited by the 10-year rule. Ordinarily, these excess revenues would be used to retire bonds. Reorigination gives AHFC the option of making new loans or retiring bonds.

In conjunction with this provision, the maturity of the bond issue is extended beyond the maturity of the mortgage loans. This allows additional mortgages to be added to the bond issue, which then extends the average mortgage maturities to more closely coincide with bond maturities.

The benefit of mortgage reorigination is that it provides continued access to a pool of funds at a known tax-exempt interest rate. It serves as a hedge against a rise in interest rates or a loss of federal tax-exemption on future bond issues.

In the case of Veterans' Mortgage Program Bonds, which are guaranteed by the State of Alaska, the bond indentures require AHFC to suspend reorigination for a calendar year if it receives written notification from the State Bond Committee prior to January 1 that reorigination would impair the ability of the Committee to sell State general obligation bonds on advantageous terms or risk a rating reduction on such bonds.

The Public Housing Division (formerly Alaska State Housing Authority (ASHA))

In 1992, under Ch. 4, FSSLA 1992, effective July 1, 1992, the Alaska State Housing Authority was abolished and the duties assigned were transferred to the Alaska Housing Finance Corporation. The Alaska State Housing Authority (ASHA), a public corporation of the State, was created in 1949 and authorized to: construct, operate, and manage low and moderate income housing projects; finance rental housing projects; engage in urban renewal programs; and construct and acquire public buildings for lease to the State.

a. Security for Bonds

ASHA had issued bonds which were secured by revenues from the projects financed, by ASHA's general assets, or by pledges of federal grants typically from the U.S. Department of Housing and Urban Development (HUD) for rent supplements on housing projects. The bonds are not general obligations of the State. ASHA was not authorized to issue bonds backed by a capital reserve fund which had the State's moral obligation attached.

b. Bond Authorization

ASHA financing of public building projects for lease to the State required approval by law pursuant to AS 18.55.100(d) which became effective September 4, 1986. Approval by law was not required for other types of ASHA projects or for bond issuance per se.

c. Housing Debt

ASHA had issued debt to finance low and moderate income rental housing. This debt was not considered to be State Supported Debt because the revenue pledged to retire the bonds did not rely on State appropriations.

ASHA's primary responsibility was to provide low income housing to eligible residents throughout the state. ASHA owned and operated subsidized housing programs sponsored by HUD such as Conventional Low Rent, Section 8 New Construction, Turnkey III Remote Housing, Mutual Help, Section 8 Additional Assistance, Section 8 Vouchers, and Section 8 Existing Housing.

d. Collateralized Bond

ASHA had issued FHA Insured Mortgage Revenue Bonds to provide loans to private developers for construction of multi-family rental housing. These were tax-exempt Qualified Private Activity Bonds by virtue of the projects reserving certain percentages of their units for low income tenants.

The FHA Insured Mortgage Revenue Bonds were not general obligations of ASHA but were backed solely by the mortgage payments from the borrower and FHA insurance in the event of the borrower's default. FHA absorbed losses on foreclosure.

The developers of the projects, financed by all but the 1982 and 1983 Series A Bonds, defaulted on their obligations under the mortgage loans by failing to fully pay principal and interest on the due date. The bond trustee applied for and received FHA insurance benefits. The insurance proceeds and bond reserves have been used to defease the bonds secured by the defaulted loans.

The following Table 3.4 summarizes all AHFC outstanding debt.

TABLE 3.4
Alaska Housing Finance Corporation
Debt Outstanding
\$ (thousands)

| bond program | Date Delivered | Amount Issued | Outstanding at 6/30/10 | TIC (%) | final maturity |
|---------------------------------------|-------------------|------------------|---------------------------|---------|-------------------|
| Home Mortgage Bonds | | | | | |
| 1998 Series A, Mortgage Revenue Bonds | 6/17/1998 | 70,000 | 14,585 | 5.205 | 2035 |
| 1999 Series A, Mortgage Revenue Bonds | 11/17/1999 | 200,000 | 56,205 | 5.978 | 2031 |
| 2000 Series A Mortgage Revenue Bonds | 11/14/2000 | 58,315 | 28,920 | 5.929 | 2040 |
| 2000 Series C Mortgage Revenue Bonds | 11/14/2000 | 68,785 | 20,015 | 5.929 | 2032 |
| 2001 Series A Mortgage Revenue Bonds | 10/17/2001 | 32,740 | 14,665 | 5.211 | 2031 |
| 2001 Series B Mortgage Revenue Bonds | 10/17/2001 | 104,450 | 33,195 | 5.211 | 2041 |
| 2002 Series A Mortgage Revenue Bonds | 5/16/2002 | 170,000 | 167,060 | 4.553 | 2036 |
| 2006 Series A Mortgage Revenue Bonds | 1/26/2006 | 98,675 | 70,790 | 4.623 | 2036 |
| 2006 Series B Mortgage Revenue Bonds | 3/23/2006 | 75,000 | 50,795 | 4.048 | 2036 |
| 2006 Series C Mortgage Revenue Bonds | 7/20/2006 | 75,000 | 53,835 | 4.210 | 2037 |
| 2007 Series A Mortgage Revenue Bonds | 5/31/2007 | 75,000 | 75,000 | 4.048 | 2041 |

TABLE 3.4 (Continued)
Alaska Housing Finance Corporation
Debt Outstanding
\$ (thousands)

| | | | | | |
|--|------------|-----------|-------------|-------|------|
| 2007 Series D Mortgage Revenue Bonds | 5/31/2007 | 89,370 | 89,370 | 4.090 | 2041 |
| 2008 Series A Mortgage Revenue Bonds | 2/28/2008 | 80,880 | 64,415 | 4.365 | 2038 |
| 2008 Series B Home Mortgage Revenue Bo | 9/30/2008 | 80,880 | 73,845 | 4.375 | 2038 |
| 2009 Series A Home Mortgage Revenue Bo | 5/28/2009 | 80,880 | 80,880 | 4.375 | 2040 |
| 2009 Series B Home Mortgage Revenue Bo | 5/28/2009 | 80,880 | 80,880 | 4.375 | 2040 |
| 2009 Series C Home Mortgage Revenue Bo | 8/26/2009 | 80,870 | 80,870 | 4.893 | 2039 |
| 2009 Series D Home Mortgage Revenue Bo | 8/26/2009 | 80,870 | 80,870 | 4.893 | 2040 |
| 2009 Series A Home Mortgage Revenue Bo | 12/23/2009 | 193,100 | 193,100 | N/A | 2010 |
| Total | | 1,795,695 | 1,329,295 | | |
| State Guaranteed Bonds | | | | | |
| 1999 First Series, Collateralized | 10/28/1999 | 110,000 | 28,255 | 6.109 | 2039 |
| 2000 First Series, Collateralized | 6/14/2000 | 70,000 | 14,545 | 6.319 | 2039 |
| 2002 First Series, Collateralized | 4/4/2002 | 50,000 | 12,510 | 5.531 | 2034 |
| 2005 First & Second Series, Collateralized | 12/29/2005 | 160,000 | 9,340 | 4.215 | 2035 |
| 2006 First Series, Collateralized | 9/19/2006 | 190,000 | 181,005 | 4.700 | 2037 |
| 2007 and 2008 First Series, Collateralized | 12/18/2007 | 57,885 | 54,680 | 5.023 | 2038 |
| Total | | 637,885 | 300,335 | | |
| General Mortgage Revenue Bonds | | | | | |
| 2002 Series A | 10/15/2002 | 150,000 | 148,825 | 4.798 | 2040 |
| Total | | 150,000 | 148,825 | | |
| Housing Development Bonds | | | | | |
| 2002 Series A (AMT)(2) | 9/5/2002 | 8,440 | 2,675 | 5.075 | 2033 |
| 2002 Series B (Non-AMT)(2) | 9/5/2002 | 8,690 | 6,255 | 5.075 | 2022 |
| 2002 Series C (Non-AMT)(2) | 9/5/2002 | 70,000 | 60,310 | 5.075 | 2032 |
| 2004 Series A (AMT)(2) | 3/4/2004 | 33,060 | 28,650 | 4.541 | 2030 |
| 2004 Series (B)(2) | 3/4/2004 | 52,025 | 42,565 | 4.541 | 2032 |
| 2004 Series D (Federally Taxable)(2) | 12/16/2004 | 105,000 | 103,040 | N/A | 2043 |
| Total | | 277,215 | 243,495 | | |
| | Date | Amount | Outstanding | | |
| bond program | Delivered | Issued | at 6/30/10 | | |
| Government Purpose Bonds | | | | | |
| 1997 Series A | 12/3/1997 | 33,000 | 14,600 | N/A | 2027 |
| 2001 Series A | 8/2/2001 | 76,580 | 61,950 | N/A | 2030 |
| 2001 Series B | 8/2/2001 | 93,590 | 75,700 | N/A | 2030 |
| Total | | 203,170 | 152,250 | | |
| State Capital Project Bonds | | | | | |
| 2002 Series A | 12/5/2002 | 32,905 | 8,525 | N/A | 2012 |
| 2002 Series C | 12/5/2002 | 60,250 | 60,250 | N/A | 2022 |
| 2006 Series A | 10/25/2006 | 100,890 | 95,510 | 4.435 | 2040 |
| 2007 Series A | 10/3/2007 | 42,415 | 39,365 | 4.139 | 2027 |
| 2007 Series B | 10/3/2007 | 53,110 | 51,990 | 4.139 | 2029 |
| Total | | 289,570 | 255,640 | | |

TABLE 3.4 (Continued)
Alaska Housing Finance Corporation
Debt Outstanding
\$ (thousands)

| bond program | Date Delivered | Amount Issued | Outstanding at 6/30/10 | | |
|-------------------------------|-------------------|------------------|---------------------------|-------|------|
| General Housing Purpose Bonds | | | | | |
| 2005 Series A | 1/27/2005 | 143,235 | 138,570 | 4.780 | 2041 |
| 2005 Series B | 5/18/2005 | 147,610 | 130,610 | 4.474 | 2030 |
| 2005 Series C | 5/18/2005 | 16,885 | 16,660 | 4.474 | 2017 |
| Total | | 307,730 | 285,840 | | |
| Total Long Term Debt | | \$3,661,265 | \$2,715,680 | | |
| Short-term Debt Outstanding | | | | | |
| Commercial Paper | Various | N/A | 150,000 | NA | VAR |
| Total Short-term Debt | | \$ - | \$ 150,000 | | |

Notes:

- 1 Multifamily bond issues.
- * Stated interest rate.
- ^ Weighted Average Interest Rate

4. Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA) is a public corporation administratively located in the Department of Commerce, Community and Economic Development but with separate and independent legal existence. Created in 1967, AIDEA promotes economic development within the State by:

- providing loans for industrial and commercial projects;
- owning and operating certain types of infrastructure facilities; and
- guaranteeing business loans and loans for export transactions.

Until 1990, AIDEA was able to and did issue bonds secured by a capital reserve fund with a State moral obligation. AIDEA currently has the ability to issue bonds with a State moral obligation on a capital reserve fund only if the bonds are issued to finance a power transmission intertie and are legislatively approved. AIDEA may issue bonds with reserve funds, but they will not have the moral obligation of the State of Alaska. AIDEA has no general obligation bonds with a capital reserve fund requirement outstanding. The Authority has covenanted that it will not incur any General Obligation indebtedness that will cause future estimated net income (as defined in the Amended and Restated Revolving Fund Bond Resolution) to be less than 150 percent of the General Obligation Annual Debt Service requirements in each year and to take no action to cause its Unrestricted Surplus to be less than the lesser of \$200 million or the amount of General Obligation Indebtedness outstanding and in no event less than \$100 million. The full faith and credit of the Authority's Revolving Fund secures the bonds currently outstanding under the resolution.

During 1988, reductions in the cash flow from AIDEA's loan portfolio reduced projected debt service coverage below 150 percent. The reduced cash flow stemmed from loan delinquencies, modifications, and foreclosures associated with Alaska's economic recession. In response to the declining debt service coverage, AIDEA defeased \$78,295,000 of its Economic Development Bonds and Consolidated Bonds by deposit of \$91,269,000 of U.S. Treasury securities purchased with AIDEA's general assets into an irrevocable trust. None of the defeased bonds remain outstanding.

During 1994, AIDEA defeased \$23,840,000 of its tax-exempt Umbrella Bonds and its Taxable Umbrella Bonds, in order to improve its projected debt service coverage. None of the bonds chosen for the defeasance would have been eligible for refunding. None of the defeased bonds remain outstanding. AIDEA's underlying ratings on its bonds are Aa3 by Moody's and AA- by Standard & Poor's. All revolving fund bonds are secured by the general assets and future revenues of AIDEA. The 2002 A bonds are secured by bond insurance.

AIDEA currently offers seven programs as follows:

i. Tax-Exempt Loan Participation Program

The Tax-Exempt Loan Participation Program can provide up to \$20 million for financing economic development projects. This program in the past was previously referred to as the "tax-exempt umbrella bond program" because many small projects financed under this program were grouped together when AIDEA issued bonds under an "umbrella". The bonds are tax-exempt by virtue of provisions in the federal tax code.

AIDEA does not directly loan money. Proceeds of the bonds or authority funds are generally used to purchase up to 90 percent of an eligible loan from financial institutions. The Tax-Exempt Loan Participation Program combines the previous Economic Development and Consolidated Bond Programs that were separate and which financed participations under and over \$1,000,000, respectively. In December 2010 \$14,470,000 of tax-exempt bonds were issued to fund a loan participation purchase. While the loan involved private activity the American Recovery and Reinvestment Act of 2009 allowed the bonds to be sold as fully tax exempt.

ii. Taxable Loan Participation Program

In response to escalating federal restrictions on tax-exempt bonds, AIDEA implemented a taxable loan participation program. The program uses bonds or AIDEA funds to purchase loan participations. The provisions of the program are the same as for the Tax-Exempt Loan Participation Program except for the deletion of restrictions related to federal tax-exemption. This program was previously called the Taxable Umbrella Bond Program. The only bonds that have been issued under this program were issued in 1987 in the amount of \$14,540,000; the remaining amounts outstanding were defeased in 1994. None of the defeased bonds remain outstanding.

iii. Conduit Revenue Bond Program

Under the Conduit Revenue Bond program, AIDEA acts as a conduit in the sale and issuance of bonds', the bonds may be tax-exempt or taxable. The bonds are generally secured by the project, the private borrower and/or the project's revenue stream.

AIDEA does not participate financially in the Conduit Revenue Bond projects nor are the Authority's assets or credit pledged as security for the bonds. Bonds issued under this program are not obligations of the Authority or the State. They are obligations of the private borrower or project only. Furthermore, the State's moral obligation does not stand behind these bonds.

Historically, the program was utilized primarily by financial institutions in conjunction with loans to private borrowers; those bonds generally are sold by private placement to the financial institution originating the loan rather than by public sale. The original demand for the program arose partially from lenders wanting the tax exemption on interest income; the Tax Reform Act of 1986 eliminated the deductibility of bank interest expense allocable to holding of tax-exempt obligations and greatly reduced demand for the program from financial institutions. Recently, the program is being used to provide funds for IRC 501(c)(3) financings.

Most bonds under this program were tax-exempt by virtue of the small issue exemption and, more recently, are for qualified 501(c)(3) projects. A few have been exempt facility bonds. The exempt facility bonds and 501(c)(3) bonds are generally sold via public sale.

From inception to June 30, 2010, AIDEA has issued Revenue Bonds for 310 projects totaling \$1.15 billion. The Authority has legislative authorization to issue revenue bonds to finance power transmission interties to be owned by electric utilities in a collective amount not to exceed \$185.0 million.

iv. Development Finance Program

Alaska statutes authorize AIDEA to finance development projects that it intends to own and operate. The types of facilities the Authority may own or operate include those for use in manufacturing, natural resource extraction, transportation of products or materials, and infrastructure for tourism destination facilities.

Bonds for projects to be owned or operated by AIDEA may be secured by the project, project revenues, specific assets of AIDEA's economic development account, or AIDEA's general assets. They can be general obligations or revenue bonds of the Authority.

Legislation enacted in 1985 authorized this program and authorized a bond sale of up to \$175.0 million to provide financing for the DeLong Mountain Transportation Project. The Project consists of a road and port owned and operated by AIDEA to facilitate the development of the Red Dog and other mines in Northwest Alaska. In 1987, \$103.3 million of such bonds were issued, the remaining bonds were redeemed in 1997.

The Legislature has enacted legislation authorizing the Authority to finance, design and construct or reconstruct additional Economic Development projects:

- (a) The Legislature authorized the issuance of up to \$25.0 million of bonds for the reconstruction of a public use ore terminal in Skagway, Alaska. A \$25.0 million bond issue was delivered in December 1990. All remaining outstanding bonds were called in April 2002.
- (b) The Legislature authorized the issuance of up to \$10.0 million of bonds for improvements to the City of Unalaska Marine Center. The project was completed in late 1991. Bonds totaling \$7.0 million were issued in December 1991 to finance the project. In May 2000 the City of Unalaska paid all remaining financial obligations related to the project, including providing for the retirement of all outstanding bonds and, in accordance with the terms of the agreement, the project was transferred to the City.
- (c) The Legislature authorized the issuance of up to \$85.0 million of bonds to finance the acquisition, design and construction of aircraft maintenance and air cargo/air transport support facilities located at the Anchorage International Airport. Construction of an aircraft maintenance facility began in August of 1992 and was completed in 1995. Bonds were issued in September, 1992 in the amount of \$28.0 million.

In June 2002, the Authority issued \$20,475,000 of refunding bonds for the purposes of refunding and defeasing the remaining outstanding bonds. The refunded bonds were called in July 2002.

- (d) AIDEA has \$55.0 million of remaining authorization (from the original \$85.0 million authorization discussed above) to issue bonds to finance the acquisition, design, and construction of aircraft maintenance/air cargo/air transport support facilities located at the Ted Stevens Anchorage International Airport.
- (e) The 1990 Legislature authorized AIDEA to issue up to \$85.0 million of bonds to assist in the financing of a coal fired power plant near Healy, Alaska. On July 18, 1996, \$85.0 million of Variable Rate Revolving Fund Bonds were issued to finance a portion of the Healy Clean Coal Project. In May 1998, \$85.0 million of bonds were issued to refund the variable rate revolving fund bonds. The bonds were defeased in March 2008 and retired in April 2008.
- (f) The 1993 Legislature enacted legislation authorizing the Authority to issue bonds not to exceed \$50.0 million for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafood. The Authority purchased the Alaska Seafood International Project in September 1999 and sold the facility in 2005. No bond issuance is anticipated.

- (g) The 1993 Legislature also enacted legislation authorizing the Authority to issue bonds not to exceed \$50.0 million for a bulk commodity loading and shipping terminal to be located at Point MacKenzie and owned by AIDEA. The 1996 Legislature modified this legislation to require that the facility be located within Cook Inlet. AIDEA does not currently anticipate participating in financing this project.
- (h) The 1995 Legislature authorized the Authority to issue up to \$20.0 million of bonds to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Authority does not currently anticipate that it will participate in financing the projects.
- (i) The 1996 Legislature authorized the Authority to issue up to \$85.0 million of bonds to finance the expansion, improvement and modification of the existing DeLong Mountain Transportation Project port facilities owned by the Authority. In 1997 the Authority issued \$150.0 million of Revolving Fund Bonds which included \$70.0 million for that purpose and \$80.0 million for the purpose of redeeming the 1987 DeLong Mountain Transportation Project Revenue Bonds. In February 2007, the Authority issued \$113,095,000 of refunding bonds for the purpose of refunding and defeasing, along with Authority funds, the remaining outstanding bonds. The defeased bonds were called in April 2007. In May 2008 the Authority issued \$107,385,000 of variable rate Revolving Fund Refunding Bonds for the purpose of refunding \$107,385,000 of Series 2007 A&B Revolving Fund Refunding Bonds and pay costs of issuance. The refunded bonds were redeemed in May 2008. In February 2010, AIDEA issued \$87,105,000 of fixed rate revolving fund refunding bonds for the purpose of refunding \$94,945,000 of Series 2000 A and B revolving fund bonds. The refunded bonds were redeemed February 24, 2010. At June 30, 2010 bonds totaling \$87.1 million were outstanding with no state moral obligation attached..
- (j) The 1996 Legislature authorized the issuance of up to \$100.0 million of bonds for the acquisition of the Snettisham hydroelectric project from the Alaska Power Administration. On August 19, 1998 AIDEA issued \$100 million of tax-exempt revenue bonds to finance the acquisition of the project. There is no State moral obligation attached. In December 1999 the Authority defeased \$6,865,000 of the bonds using funds on hand (\$5,860,000 of the defeased bonds were outstanding at June 30, 2010). At June 30, 2010 \$79.4 million (excluding the defeased bonds) were outstanding.
- (k) The 1998 Legislature authorized the issuance of bonds (or other financing) up to: a) \$80.0 million to finance the expansion, improvement, and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by AIDEA; b) \$30.0 million to finance the improvement and expansion of the Nome port facilities to be owned by AIDEA; and c) \$15.0 million to finance phase one construction and improvement of the proposed Hatcher Pass Ski Resort located in the Matanuska-Susitna Borough; in 2006 this authorization was modified and increased to \$25 million to finance the development of Hatcher Pass.
- (l) The 2004 Legislature authorized the issuance of up to \$20.0 million of bonds to finance the acquisition, development, improvement and construction of port and related facilities on Lynn Canal in Southeast Alaska, to be owned by the Authority.

v. Business and Export Assistance Program

The Business and Export Assistance Program (Guarantee Program) was authorized by the 1998 Legislature by merging the Business Assistance Program and the Export Assistance Program, authorized in 1988 and 1987, respectively. AIDEA's goal under the Guarantee Program is to encourage projects that help diversify Alaska's economy and provide or retain jobs for Alaskans. The Guarantee Program provides a guarantee up to 80% of the principal balance, not to exceed \$1 million, to the financial institution who made the loan. The guarantee also covers accrued interest on loans.

vi. Rural Development Initiative Fund Loan Program (RDIF)

The RDIF is a loan program designed to create job opportunities in rural Alaska by providing small businesses with capital that may not be available through conventional markets. This program provides loans for working capital, equipment, construction, or other commercial purposes. To be eligible for a loan under this program, the business must be Alaskan-owned and located in a community with a population of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks. The Department on Commerce, Community and Economic Development, Division of Investment, administers the program for AIDEA.

vi. Small Business Economic Development Revolving Loan Fund Program

AIDEA’s Small Business Economic Development Revolving Loan Fund Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund was created to receive loan fund grants from the United States Economic Development Administration. The Department of Commerce, Community and Economic Development, Division of Investments, administers the program for AIDEA.

a. Bond Authorization

AS 44.88.095 places a statutory ceiling of \$400 million per twelve month period on AIDEA bond issuances. Effective July 1, 2007 AS 44.88.095(g) requires legislative approval prior to the issuance of bonds, except refunding and conduit revenue bonds.

b. Debt Issued and Outstanding

AIDEA has issued \$1.27 billion of bonds with \$174.6 million outstanding on June 30, 2010 as shown in Tables 3.5—3.6.

TABLE 3.5
Alaska Industrial Development and Export Authority
Type of Debt Issued
\$ (thousands)

| calendar year | economic development bonds | consolidated bonds | umbrella bonds | taxable umbrella bonds | development bonds | revolving fund bonds |
|---------------|----------------------------|--------------------|----------------|------------------------|-------------------|----------------------|
| 1981-1990 | \$ 141,425 | 60,475 | 83,000 | 14,540 | 103,250 | 25,000 |
| 1991 | - | - | - | - | - | 7,000 |
| 1992 | - | - | - | - | - | 28,000 |
| 1993 | - | - | - | - | - | 25,265 |
| 1994 | - | - | - | - | - | 11,435 |
| 1995 | - | - | - | - | - | 17,845 |
| 1996 | - | - | - | - | - | 85,000 |
| 1997 | - | - | - | - | - | 150,000 |
| 1998 | - | - | - | - | 100,000 | 85,000 |

TABLE 3.5 (Continued)
Alaska Industrial Development and Export Authority
Type of Debt Issued
 \$ (thousands)

| calendar year | economic development bonds | consolidated bonds | umbrella bonds | taxable umbrella bonds | development bonds | revolving fund bonds |
|---------------|----------------------------|--------------------|------------------|------------------------|-------------------|----------------------|
| 1999 | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - |
| 2002 | - | - | - | - | - | 20,475 |
| 2003 | - | - | - | - | - | - |
| 2004 | - | - | - | - | - | - |
| 2005 | - | - | - | - | - | - |
| 2006 | - | - | - | - | - | - |
| 2007 | - | - | - | - | - | 113,095 |
| 2008 | - | - | - | - | - | 107,385 |
| 2009 | - | - | - | - | - | - |
| 2010 | - | - | - | - | - | 87,105 |
| Total | <u>\$ 141,425</u> | <u>\$ 60,475</u> | <u>\$ 83,000</u> | <u>\$ 14,540</u> | <u>\$ 203,250</u> | <u>\$ 762,605</u> |

TABLE 3.6
Alaska Industrial Development and Export Authority
Debt Issued and Outstanding
 \$ (thousands)

| | Date | Amount Issued | Outstanding at 6/30/10 |
|---|-----------|-------------------|------------------------|
| Development bonds | | | |
| Power Revenue Bonds, First Series (Snettisham Hydroelectric Project) | 8/18/1998 | 100,000 | 79,355 |
| Total | | <u>100,000</u> | <u>79,355</u> |
| Revolving fund bonds | | | |
| Federal Express Maintenance Facility (Refunding) | 6/20/2002 | 20,475 | 8,110 |
| Red Dog Port Facility (Refunding) | 5/29/2008 | 107,385 | - |
| Red Dog Port Facility (Refunding) | 2/24/2010 | 87,105 | 87,105 |
| Total | | <u>214,965</u> | <u>95,215</u> |
| Total Bonds | | <u>\$ 314,965</u> | <u>\$ 174,570</u> |

Source: Financial Statements, various years, AIDEA

C. Alaska Medical Facility Authority

The Alaska Medical Facility Authority is a public authority administratively located in the Department of Revenue with separate and independent legal existence. The Authority was created by the Legislature in 1978 to finance construction and improvements to medical facilities in the State. They are secured by lease payments on medical facilities mortgaged to the Authority. Bonds of the Authority do not require approval by law.

The authority issued two bonds. The first was \$12.0 million First Mortgage Hospital Revenue Bonds, Series 1979 issued for improvements to Fairbanks Memorial Hospital. The bonds were rated Baa1/BBB-. The second issue of \$2.1 million Alaska Medical Facility Authority Revenue Bond Series 1983 financed the purchase of Careage North by the Greater Fairbanks Community Hospital Foundation. The bonds were privately placed with the seller and not rated.

The Series 1983 bonds were redeemed on June 22, 1989. The Series 1979 bonds were redeemed on March 1, 1990. The Authority has no bonds currently outstanding.

D. Alaska Municipal Bond Bank

The Alaska Municipal Bond Bank (Bond Bank) was created as a public corporation by the State in 1975 for the purpose of lending money to Alaska's governmental units for their capital projects. The Bond Bank is empowered to issue bonds, the proceeds of which are used to purchase bonds, notes or certificates of participation of State municipalities. Most of the Bond Bank bonds maintain a Capital Reserve Fund with the State's moral obligation attached. As of June 30, 2010 the total principal amount of outstanding bonds and notes of the Bond Bank was \$633,627,834. Of this total amount outstanding, \$568,900,000 represents general obligation bonds, \$53,855,000 represents revenue bonds, and \$10,872,834 represents notes issued under the Coastal Energy Loan Program. General obligation and revenue bonds are serviced by the Bond Bank and are secured, in part, by past State appropriations to the Bond Bank, certain revenue streams of the municipality borrowing the proceeds, and additional moneys of the Bond Bank placed in a statutory capital reserve fund. The Bond Bank is covenanted to notify the State legislature of any failure to maintain the capital reserve fund at their required levels. The State legislature may appropriate funds to the Bond Bank to restore capital reserve funds to required amounts. (See "Moral Obligation Debt"). The Coastal Energy Loan Program notes do not have a claim on any capital reserve funds of the Bond Bank and are payable solely from the payments of the municipalities participating in the Program.

a. Advantages to Municipalities

The advantages to Alaska's municipalities of using the Bond Bank are several. Interest rates are lower because of the additional security achieved through the structure of the Bond Bank as well as the diversification of risk achieved by pooling municipal bond issues through the Bond Bank. The Bond Bank's general obligation program is currently rated AA by Fitch Ratings (the Fitch Rating was initiated in FY 2009) and Aa2 by Moody's Investor Service. These are higher ratings than most of Alaska's municipalities can achieve independently. The Bond Bank, carrying the name of the State of Alaska and being a more frequent issuer, is better known than many of Alaska's smaller units of government. This enhances the marketability of the bonds to investors nationally.

b. Municipal Debt Purchased

The Bond Bank has assisted 42 of Alaska's municipalities obtain financing for capital projects. These communities are geographically distributed throughout Alaska and represent virtually all sectors of the State's economy.

TABLE 3.7
Alaska Municipal Bond Bank
Outstanding Loans to Municipalities
Funded with Bonds as of 6/30/2010
 \$ (thousands)

| Governmental Unit | Outstanding | |
|------------------------------|---------------------|---------------------|
| | Loan Amount | Percentage of Total |
| City & Borough of Juneau | 62,945 | 10.32% |
| Northwest Arctic Borough | 61,140 | 10.02% |
| City of Ketchikan | 55,365 | 9.08% |
| Ketchikan Gateway Borough | 49,565 | 8.12% |
| Kenai Peninsula Borough | 46,369 | 7.60% |
| City of Seward | 44,090 | 7.23% |
| City of Unalaska | 37,505 | 6.15% |
| City & Borough of Sitka | 32,550 | 5.34% |
| Kodiak Island Borough | 29,930 | 4.91% |
| Aleutians East Borough | 29,840 | 4.89% |
| City of Valdez | 20,290 | 3.33% |
| City of Cordova | 18,285 | 3.00% |
| City of Petersburg | 15,695 | 2.57% |
| Haines Borough | 15,595 | 2.56% |
| City of Kodiak | 14,615 | 2.40% |
| City of Dillingham | 14,140 | 2.32% |
| City of Nome | 13,152 | 2.16% |
| City of Wasilla | 7,260 | 1.19% |
| City of Fairbanks | 6,280 | 1.03% |
| St. Paul | 6,006 | 0.98% |
| Lake and Peninsula Borough | 5,979 | 0.98% |
| Municipality of Anchorage | 4,855 | 0.80% |
| Municipality of Skagway | 4,680 | 0.77% |
| City of Bethel | 3,470 | 0.57% |
| City of Wrangell | 2,749 | 0.45% |
| City of Palmer | 1,910 | 0.31% |
| Inter-Island Ferry Authority | 1,265 | 0.21% |
| City of Adak | 1,245 | 0.20% |
| City of North Pole | 1,120 | 0.18% |
| City of Galena | 740 | 0.12% |
| City of Craig | 550 | 0.09% |
| City of King Cove | 500 | 0.08% |
| City & Borough of Yakutat | 375 | 0.06% |
| Total | 610,055 | 100.00% |
| Total | \$ 1,220,110 | 200.00% |

Source: Alaska Municipal Bond Bank
 Does not include reserve obligations but does include direct loans

c. Security for Bonds

Municipal general obligation bonds are usually issued to finance facilities that do not generate revenue, such as schools, roads, public safety and municipal buildings. They are issued with the approval of the municipal voters and are secured by the full faith and credit of the municipality. Municipalities within the State of Alaska have no taxing limitations for debt service requirements.

The Bond Bank's historical mainstream program was created in 1976 by its General Bond Resolution that authorized the issuance of Bond Bank general obligation bonds to purchase general obligation bond issues of municipalities. A total of 84 general obligation bond series have been issued in order to secure funds to purchase \$930.2 million in municipal debt.

In Fiscal Year 2006 a new General Bond Resolution was approved authorizing the issuance of Bond Bank general obligation bonds to purchase loans for both general obligation and revenue bond issues of municipalities. This ability to combine revenue and general obligation loans has increased operational efficiency for the Bond Bank and the economic benefits to communities. As of June 30, 2010 a total of 17 bond issues have been issued using the 2005 General Bond Resolution for a total amount of \$393.2 million.

Bonds issued by the Bond Bank to purchase municipal general obligation bonds are secured by:

- Full faith and credit or revenue pledge of each respective community with no taxing limitation for the general bonded debt issued to the Bond Bank.
- The pooled debt service reserve fund founded per the bond resolution. The reserve fund generally is funded to the tax allowed maximum based on the Bond Bank bonds.
- The statutory Bond Bank reserve fund monies available and not pledged to bond issues, which may be used to restore the debt service reserve fund in the event of default.
- The statutory right of the Bond Bank, in the event of default, to demand and receive from a State agency any funds held by that agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.

c. Bond Authorization

The Bond Bank may not issue in excess of \$75 million in revenue bonds during any fiscal year without legislative approval.

AS 44.85.180(c) was enacted in 1975, limiting Bond Bank bonds outstanding at any time to \$150 million. This statute was amended in 1983, 1984, 2003, 2006, and 2010 to raise the limit to \$200 million, \$300 million, 500 million, \$750 million, and \$1 billion respectively. Total Bond Bank bonds and notes outstanding as of June 30, 2010, were \$633.6 million. Thus, the limit on additional bond issuance at that time was \$366.4 million.

d. Bonds Issued and Outstanding

The types of Bond Bank Bonds issued and outstanding are summarized in Table 3.8.

TABLE 3.8
Alaska Municipal Bond Bank
Summary of Bonds Types Issued and Outstanding
 \$ (thousands)

| Type | Amount Issued | Outstanding at 6/30/10 |
|--------------------------|---------------------|---------------------------|
| General Obligation Bonds | \$ 1,100,490 | \$ 568,900 |
| Revenue Bonds | 170,970 | 53,855 |
| Coastal Energy Bonds | 35,456 | 10,873 |
| | <u>\$ 1,306,916</u> | <u>\$ 633,628</u> |

The Coastal Energy Reserve and Loan Bonds are not general obligations of the Bond Bank and are payable only from bond payments received from the underlying communities. These bonds do not have the State's moral obligation attached.

A complete listing of debt issued by the Bond Bank and outstanding is found in Table 3.9.

TABLE 3.9
Alaska Municipal Bond Bank
Debt Issued and Outstanding
 \$ (thousands)

| | Date | Amount Issued | Outstanding at 6/30/10 |
|---|------------|----------------|---------------------------|
| 1976 General Resolution General Obligation Bonds | | | |
| 1998 Series A | 4/1/1998 | 7,950 | 205 |
| 1998 Series B | 12/1/1998 | 3,715 | 205 |
| 2000 Series C | 8/1/2000 | 21,645 | 1,000 |
| 2000 Series D | 10/1/2000 | 1,800 | 85 |
| 2000 Series E | 11/15/2000 | 16,390 | 2,255 |
| 2000 Series F | 11/15/2000 | 1,175 | 160 |
| 2001 Series A | 8/1/2001 | 15,475 | 755 |
| 2001 Series B | 10/15/2001 | 3,835 | 2,760 |
| 2002 Series A | 5/1/2002 | 15,445 | 4,920 |
| 2002 Series B | 8/15/2002 | 11,590 | 8,770 |
| 2003 Series A | 2/12/2003 | 9,305 | 6,930 |
| 2003 Series C | 5/22/2003 | 8,250 | 2,865 |
| 2003 Series D | 8/7/2003 | 14,520 | 10,985 |
| 2003 Series E | 9/30/2003 | 32,020 | 7,360 |
| 2003 Series F | 10/15/2003 | 3,235 | 290 |
| 2003 Series G | 1/6/2004 | 24,110 | 18,410 |
| 2004 Series A | 2/5/2004 | 20,270 | 12,460 |
| 2004 Series B | 4/8/2004 | 17,425 | 11,355 |
| 2004 Series C | 7/21/2004 | 14,575 | 11,600 |
| 2004 Series D | 12/1/2004 | 13,925 | 10,405 |
| 2005 Series A | 3/22/2005 | 32,655 | 30,710 |
| 2005 Series B | 5/4/2005 | 27,625 | 19,815 |
| 2005 Series C | 10/4/2005 | 32,060 | 27,890 |
| 2006 Series A | 2/9/2006 | 19,255 | 14,295 |
| Total | | <u>368,250</u> | <u>206,485</u> |

TABLE 3.9 (Continued)
Alaska Municipal Bond Bank
Debt Issued and Outstanding
 \$ (thousands)

| | Date | Amount Issued | Outstanding at 6/30/10 |
|---|------------|---------------|---------------------------|
| 2005 General Resolution General Obligation Bonds | | | |
| 2005 Series One | 10/20/2005 | 18,700 | 13,975 |
| 2006 Series One | 6/21/2006 | 7,390 | 6,470 |
| 2006 Series Two | 7/26/2006 | 40,265 | 38,305 |
| 2007 Series One | 1/31/2007 | 26,735 | 25,055 |
| 2007 Series Two | 4/5/2007 | 24,860 | 24,630 |
| 2007 Series Three | 6/25/2007 | 14,715 | 14,095 |
| 2007 Series Four | 8/28/2007 | 15,625 | 14,675 |
| 2007 Series Five | 11/20/2007 | 6,000 | 5,910 |
| 2008 Series One | 4/15/2008 | 62,355 | 60,600 |
| 2008 Series Two | 7/22/2008 | 19,700 | 18,760 |
| 2009 Series One | 1/8/2009 | 26,730 | 26,715 |
| 2009 Series Two | 3/18/2009 | 30,295 | 28,090 |
| 2009 Series Three | 9/21/2009 | 13,390 | 13,390 |
| 2009 Series Four A | 12/3/2009 | 8,695 | 8,695 |
| 2009 Series Four B | 12/3/2009 | 20,425 | 20,425 |
| 2010 Series One A | 2/23/2010 | 20,420 | 20,420 |
| 2010 Series One B | 2/23/2010 | 7,415 | 7,415 |
| 2010 Series Two A | 5/20/2010 | 3,385 | 3,385 |
| 2010 Series Two B | 5/20/2010 | 11,405 | 11,405 |
| | | 378,505 | 362,415 |
| Total | | 746,755 | 568,900 |
| Total General Obligation Bonds | | | |
| 2000 Series B Revenue Bonds | 12/1/2000 | 3,000 | 275 |
| 2001 Series A Revenue Bonds | 8/1/2001 | 1,725 | 1,110 |
| 2001 Series B Revenue Bonds | 8/1/2001 | 2,525 | 1,645 |
| 2002 Series A Revenue Bonds | 12/1/2002 | 6,250 | 2,930 |
| 2003 Series B Revenue Bonds | 5/15/2003 | 19,000 | 16,300 |
| 2004 Series A Revenue Bonds | 8/26/2004 | 28,845 | 26,740 |
| 2004 Series B Revenue Bonds | 9/1/2004 | 5,365 | 4,855 |
| | | 66,710 | 53,855 |
| Total Revenue Bonds | | | |
| Co City of Nome | | | |
| Port Authority | 6/30/1996 | 5,000 | 4,867 |
| City of St. Paul | | | |
| Fuel Tank Farm | 6/30/1998 | 6,563 | 6,006 |
| | | 11,563 | 10,873 |
| Total Alaska Municipal Bond Bank Debt | | \$ 825,028 | \$ 633,628 |

Source: Alaska Municipal Bond Bank Authority

E. Alaska Railroad Corporation

Legislation signed into law during 1984 established the Alaska Railroad Corporation as a public corporation of the State to manage the Alaska Railroad upon its acquisition from the Federal Government until its possible transfer to private ownership. The corporation is administratively placed within the Department of Commerce and Economic Development. The corporation has the power to issue bonds if such issuance is approved by law. Bonds issued by the corporation would not bear the full faith and credit of the State. The Railroad is not authorized to issue State moral obligation bonds.

By Chapter 77, SLA 1994, the Railroad is authorized to issue revenue bonds in the principal amount of \$55.0 million for the construction and acquisition of the Alaska Discovery Center for the Ship Creek Project in Anchorage. To date, no bonds have been issued.

Chapter 71, SLA 2003 authorized the ARRC to issue up to \$17 billion in revenue bonds to finance the construction of a natural gas pipeline and related facilities, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued.

Chapter 46, SLA 2004 authorized the ARRC to issue up to \$500 million in revenue bonds, subject to an agreement with a third party to pay the debt service, and other related bond costs, to finance the cost of extending its rail line to Fort Greely, Alaska. To date, no bonds have been issued.

Chapter 28, SLA 2006 authorized the ARRC to issue up to \$165 million in revenue bonds to finance rail transportation projects that qualify for federal financial participation. On August 22, 2006, the Alaska Railroad issued \$76.4 million in revenue bonds. On August 29, 2007, the Alaska Railroad issued the remaining \$88.6 million in revenue bonds.

Chapter 65, SLA 2007 authorized the Alaska Railroad to issue up to \$2.9 billion in revenue bonds to finance all or a portion of the Kenai gasification project and Port MacKenzie rail spur project, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued.

F. Alaska Student Loan Corporation

Chapter 92, SLA 1987 created the Alaska Student Loan Corporation (ASLC or Corporation), a public corporation administratively lodged in the Department of Education and Early Development but with a separate and independent legal existence. The Corporation's purpose is to lower costs for Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State, through the financing of education loans. The security for the Corporation's debt consists of education loans and other assets of the Corporation. The bonds issued by the ASLC carry the State's moral obligation as security. The debt issued by the Corporation is not a general obligations of the State or the Corporation.

Bonds issued by the ASLC are tax-exempt and generally subject to the Private Activity Bond (PAB) ceiling established by the Tax Reform Act of 1986.

Total debt outstanding as of June 30, 2010 was \$818.6 million as shown in Table 4.0. The Education Loan Revenue Bonds are not insured but are rated AAA by both Fitch and Standard & Poor's. The 2004 Capital Project Revenue Bonds are insured by National Public Finance Guarantee Corporation which is rated Baa1 by Moody's and BBB by Standard & Poor's. The 2004 Capital Project Revenue Bonds carry a shadow rating of A2 by Moody's and A by Standard & Poor's. The 2005 Capital Project Revenue Bonds are insured by Assured Guaranty Municipal Corporation which is rated AA+ rating by Fitch. Standard & Poor's withdrew their rating on Assured Guaranty Municipal Corporation. The 2005 Capital Project Revenue Bonds carry the rating of the bond insurer.

TABLE 4.0
Alaska Student Loan Corporation
Debt Issued and Outstanding
\$ (thousands)

| Student Loan Revenue Bonds | Date | Amount Issued | Outstanding at 6/30/10 | Final Maturity |
|--|-----------|---------------|------------------------|----------------|
| 2002 Series A | 6/4/2002 | 47,500 | - | 6/1/2037 |
| 2002 Series B | 6/4/2002 | 15,000 | - | 6/1/2037 |
| 2003 Series A-1 | 6/5/2003 | 16,500 | 16,500 | 6/1/2016 |
| 2003 Series A-2 | 6/5/2003 | 30,500 | 30,500 | 6/1/2038 |
| 2004 Series A-1 | 5/19/2004 | 45,500 | 44,500 | 4/1/2044 |
| 2004 Series A-2 | 5/19/2004 | 47,600 | - | 4/1/2044 |
| 2004 Series A-3 | 5/19/2004 | 22,015 | 22,015 | 6/1/2017 |
| 2005 Series A | 7/28/2005 | 58,250 | 48,250 | 6/1/2018 |
| 2006 Series A-1 | 5/25/2006 | 30,000 | 30,000 | 6/1/2040 |
| 2006 Series A-2 | 5/25/2006 | 55,000 | 48,500 | 6/1/2018 |
| 2007 Series A-1 | 6/7/2007 | 41,500 | 41,500 | 6/1/2042 |
| 2007 Series A-2 | 6/7/2007 | 18,500 | 18,000 | 6/1/2019 |
| 2007 Series A-3 | 6/7/2007 | 49,000 | 30,000 | 6/1/2014 |
| Capital Project Revenue Bonds | | | | |
| 2004 Series A | 3/11/2004 | 75,140 | 38,645 | 7/1/2018 |
| 2005 Series A | 3/30/2005 | 88,305 | 37,500 | 7/1/2014 |
| Loan with State of Alaska | | | | |
| | 7/17/2009 | 63,000 | 63,000 | 7/17/2013 |
| Funding Note Purchase Agreement | | | | |
| | 6/29/2010 | 115,250 | 115,250 | |
| | | \$ 818,560 | \$ 584,160 | |

Source: Alaska Student Loan Corp.

G. University of Alaska

In addition to the State issuing general obligation bonds to finance University related projects, the University issues notes and bonds for specific University purposes, some of which are secured by project revenues or University general revenues. Facilities that have been financed include Anchorage, Juneau and Fairbanks student centers student housing units, research facilities, student recreation centers, or utility system. Capital assets, net of debt amounted to \$738.2 million at June 30, 2010.

The University issued Housing System Bonds for housing and food service facility needs during the 1960's and early 1970's. Between 1960 and 1991, University of Alaska Heating Corporation issued bonds secured by lease payments made by the University from general fund appropriations. All of these bonds have been either repaid over time or defeased through issuance of University of Alaska General Revenue Bonds.

General Revenue Bonds Series H, J, K, L, M, N, O, and P are secured by a pledge of unrestricted current fund revenues generated from tuition, fees, recovery of indirect costs, sales and services to educational departments, miscellaneous receipts and auxiliaries. University general revenue bond debt is not a general obligation of the State nor does the State provide security for the debt in any other manner, i.e., by appropriations, guarantees, or moral obligation pledges.

Standard & Poor first assigned a credit rating of AA- to the University revenue bonds in November of 1992. In December 1993, Moody's assigned a rating of A1. In June 1997, both rating agencies affirmed the earlier ratings and added "stable outlook" to those ratings. As of June 30, 2009 the University had achieved credit ratings of Aa3 with a stable outlook from Moody's Investors Service and AA- with a stable outlook from

Standard & Poor's. In 2010 Moody's Investors Service revised their rating to Aa2. These ratings are lower than the State's General Obligation Bonds due to the lesser security of University general revenues, a relatively small unrestricted endowment in relation to its operating budget, and the University's heavy dependence upon State appropriation. The funded trustee-held debt service reserve requirement for general revenue bonds is approximately one half of peak annual debt service. Installment Contracts and Notes Payable have no such requirement.

Total debt issued by the University and outstanding is summarized on Table 4.1.

TABLE 4.1
University of Alaska
Debt Issued and Outstanding
\$ (thousands)

| | Date | Amount | Principal Outstanding at 6/30/10 | Interest to maturity | Total debt service to maturity | Final maturity |
|------------------------------|------------|-------------------|----------------------------------|----------------------|--------------------------------|----------------|
| Revenue Bonds | | | | | | |
| 1998 Series H | 12/17/1998 | 9,820 | - | - | - | 10/1/2023 |
| 1999 Series J | 4/27/1999 | 14,295 | - | - | - | 10/1/2017 |
| 2002 Series K | 7/31/2002 | 33,515 | 26,240 | 12,820 | 39,060 | 10/1/2028 |
| 2003 Series L | 12/9/2003 | 9,970 | 6,875 | 3,582 | 10,457 | 10/1/2030 |
| 2004 Series M | 1/8/2004 | 11,070 | 9,305 | 4,136 | 13,441 | 10/1/2028 |
| 2005 Series N | 8/31/2005 | 24,355 | 21,875 | 9,740 | 31,615 | 10/1/2035 |
| 2008 Series O | 1/31/2008 | 23,795 | 22,150 | 9,888 | 32,038 | 10/1/2033 |
| 2008 Series P | 12/8/2009 | 14,045 | 14,045 | 3,298 | 17,343 | 10/1/2033 |
| Total | | 140,865 | 100,490 | 43,464 | 143,954 | |
| Installment Contracts | varies | 3,790 | 2,352 | 299 | 2,651 | 4/15/2017 |
| Notes Payable | | | | | | |
| Alaska Housing Corp | 5/14/1997 | 30,000 | 18,458 | 2,543 | 21,001 | 2/1/2024 |
| Total | | 30,000 | 18,458 | 2,543 | 21,001 | |
| Total University Debt | | <u>\$ 174,655</u> | <u>\$ 121,300</u> | <u>\$ 46,306</u> | <u>\$ 167,606</u> | |

Source: University of Alaska

H. Municipal Debt

1. General Obligation Bonds

Alaskan municipalities had approximately \$2.501 billion in general obligation debt outstanding at the end of June, 2010. The level of Alaska municipalities' general obligation debt has been stable over the last five years, and the current amounts remain below the peak of \$2.673 billion in 1986.

High levels of State appropriations for municipal capital projects beginning in FY 1981 depressed municipal bond issuance for most purposes. However, liberalization in FY 1978 of State reimbursement of municipal school debt to 80 percent or higher from a previous 50 percent greatly stimulated issuance for school construction. The other major element of municipal G.O. debt has been the capital construction program of the North Slope Borough. More recently several municipal school debt reimbursement authorizations at the 60-70% level, including a current authorization due to expire in FY 2011, have again stimulated borrowing at the local level.

When State reimbursement is netted out of municipal school debt, it becomes apparent that many Alaska municipalities have substantial debt capacity.

The following Table 4.2 summarizes municipal debt outstanding.

TABLE 4.2
Municipal General Obligation Bonds Outstanding
\$ (millions)

| June 30 | Amount | June 30 | Amount | June 30 | Amount |
|---------|---------|---------|---------|---------|---------|
| 1975 | \$ 351 | 1987 | 2,463.9 | 1999 | 1,832.0 |
| 1976 | 420.8 | 1988 | 2,170.4 | 2000 | 1,603.0 |
| 1977 | 519.5 | 1989 | 1,966.9 | 2001 | 1,850.4 |
| 1978 | 545.2 | 1990 | 2,002.1 | 2002 | 1,980.9 |
| 1979 | 768.5 | 1991 | 1,854.8 | 2003 | 1,932.6 |
| 1980 | 827.1 | 1992 | 1,729.8 | 2004 | 2,107.2 |
| 1981 | 1,091.0 | 1993 | 1,814.0 | 2005 | 2,345.8 |
| 1982 | 1,316.2 | 1994 | 1,759.9 | 2006 | 2,357.8 |
| 1983 | 1,619.1 | 1995 | 1,901.6 | 2007 | 2,402.1 |
| 1984 | 2,105.8 | 1996 | 1,779.1 | 2008 | 2,397.9 |
| 1985 | 2,084.0 | 1997 | 1,777.5 | 2009 | 2,423.0 |
| 1986 | 2,673.5 | 1998 | 1,774.7 | 2010 | 2,501.0 |

Source: Alaska Taxable

2. General Obligation Debt Ratios

Table 4.3 present ratios of municipal debt to population and to the estimated full value of taxable property in Alaska. Alaska's sparse population leads to higher debt ratios than might be found in other states. The presence of enormous oil and gas property values in certain municipalities has been a significant contributor to higher debt capacity.

TABLE 4.3
Per Capita Municipal and State
General Obligation Debt
1985-2010

| Year | Population (thousands) | Municipal Debt \$ (millions) | State of Alaska debt \$ (millions) | Total G.O. Debt \$ (millions) | Per Capita G.O. Debt (dollars) |
|------|---------------------------|------------------------------------|--|-------------------------------------|--------------------------------------|
| 1985 | 547,475 | 2,084 | 924 | 3,029 | 5,534 |
| 1986 | 572,029 | 2,673 | 706 | 3,380 | 5,910 |
| 1987 | 574,200 | 2,463 | 598 | 3,062 | 5,333 |
| 1988 | 575,982 | 2,170 | 489 | 2,660 | 4,619 |
| 1989 | 540,563 | 1,966 | 386 | 2,353 | 4,353 |
| 1990 | 545,774 | 2,002 | 290 | 2,292 | 4,201 |
| 1991 | 579,659 | 1,854 | 213 | 2,067 | 3,567 |
| 1992 | 585,000 | 1,729 | 156 | 1,886 | 3,225 |
| 1993 | 599,200 | 1,813 | 108 | 1,921 | 3,208 |

TABLE 4.3 (Continued)
Per Capita Municipal and State
General Obligation Debt
1985-2010

| Year | Population (thousands) | Municipal Debt \$ (millions) | State of Alaska debt \$ (millions) | Total G.O. Debt \$ (millions) | Per Capita G.O. Debt (dollars) |
|------|---------------------------|------------------------------------|--|-------------------------------------|--------------------------------------|
| 1994 | 606,278 | 1,759 | 78 | 1,838 | 3,032 |
| 1995 | 615,900 | 1,901 | 58 | 1,959 | 3,182 |
| 1996 | 619,100 | 1,779 | 39 | 1,818 | 2,937 |
| 1997 | 611,300 | 1,778 | 24 | 1,802 | 2,947 |
| 1998 | 621,400 | 1,775 | 11 | 1,786 | 2,874 |
| 1999 | 622,000 | 1,832 | 2 | 1,834 | 2,949 |
| 2000 | 622,000 | 1,603 | 0 | 1,603 | 2,577 |
| 2001 | 628,800 | 1,850 | 0 | 1,850 | 2,942 |
| 2002 | 634,892 | 1,981 | 0 | 1,981 | 3,120 |
| 2003 | 643,786 | 1,933 | 0 | 1,933 | 3,003 |
| 2004 | 643,786 | 2,107 | 462 | 2,569 | 3,991 |
| 2005 | 655,435 | 2,346 | 438 | 2,784 | 4,248 |
| 2006 | 663,661 | 2,358 | 414 | 2,772 | 4,177 |
| 2007 | 670,053 | 2,402 | 390 | 2,792 | 4,166 |
| 2008 | 676,987 | 2,398 | 364 | 2,762 | 4,080 |
| 2009 | 679,720 | 2,424 | 503 | 2,927 | 4,306 |
| 2010 | 692,314 | 2,501 | 476 | 2,977 | 4,300 |

Source: Alaska Taxable

TABLE 4.4
Municipal G.O. Debt, Population and Valuation
6/30/2010

| Boroughs and Cities within Boroughs | Population | Full Value Determination (thousands) | Per Cap Full Value | Municipal G.O. Debt (thousands) | Per Capita G.O. Debt |
|--|------------|--|-----------------------|---------------------------------------|-------------------------|
| Aleutians East Borough | 2,778 | \$238,348 | \$ 85,798 | \$29,885 | \$ 10,758 |
| Municipality of Anchorage | 290,588 | \$35,299,565 | \$ 121,476 | \$1,240,685 | 4,270 |
| Fairbanks North Star Borough | 93,779 | \$9,687,138 | \$ 103,298 | \$137,210 | 1,463 |
| <i>City of Fairbanks</i> | 32,506 | \$3,337,807 | \$ 102,683 | \$6,280 | 193 |
| <i>City of North Pole</i> | 2,200 | \$478,472 | \$ 217,487 | \$1,120 | 509 |
| Haines Borough | 2,286 | \$328,945 | \$ 143,895 | \$15,249 | 6,671 |
| City & Borough of Juneau | 30,661 | \$4,386,520 | \$ 143,065 | \$156,356 | 5,100 |
| Kenai Peninsula Borough | 53,578 | \$7,987,010 | \$ 149,073 | \$82,289 | 1,536 |
| <i>City of Seward</i> | 7,115 | \$804,076 | \$ 113,011 | \$2,000 | 281 |
| Ketchikan Gateway Borough | 12,984 | \$1,554,570 | \$ 119,730 | \$40,820 | 3,144 |
| <i>City of Ketchikan</i> | 7,503 | \$886,979 | \$ 118,217 | \$6,490 | 865 |

TABLE 4.4(Continued)
Municipal G.O. Debt, Population and Valuation
6/30/2010

| Boroughs and Cities within Boroughs | Population | Full Value Determination (thousands) | Per Cap Full Value | Municipal G.O. Debt (thousands) | Per Capita G.O. Debt |
|--|----------------------|--|-----------------------|---------------------------------------|-------------------------|
| Kodiak Island Borough | 13,860 | \$1,309,976 | \$ 94,515 | \$29,225 | 2,109 |
| <i>City of Kodiak</i> | 5,689 | \$641,148 | \$ 112,700 | \$7,720 | 1,357 |
| Lake and Peninsula Borough | 1,547 | \$73,321 | \$ 47,396 | \$6,782 | 4,384 |
| Matanuska-Susitna Borough | 84,314 | \$9,103,818 | \$ 107,975 | \$169,325 | 2,008 |
| <i>City of Palmer</i> | 5,532 | \$592,375 | \$ 107,081 | \$1,850 | 334 |
| <i>City of Wasilla</i> | 7,245 | \$1,337,447 | \$ 184,603 | \$5,080 | 701 |
| North Slope Borough | 6,798 | \$16,518,276 | \$ 2,429,873 | \$387,787 | 57,044 |
| Northwest Arctic Borough | 7,366 | \$679,045 | \$ 92,186 | \$61,140 | 8,300 |
| City & Borough of Sitka | 8,627 | \$1,194,785 | \$ 138,494 | \$32,550 | 3,773 |
| Municipality of Skagway | 865 | \$342,053 | \$ 395,437 | \$5,109 | 5,906 |
| City & Borough of Wrangell | 2,058 | \$190,870 | \$ 92,746 | \$2,809 | 1,365 |
| Municipalities Outside Boroughs | | | | | |
| City of Adak | 165 | \$0 | \$ - | \$1,180 | 7,152 |
| City of Cordova | 2,126 | \$266,617 | \$ 125,408 | \$17,840 | 8,391 |
| City of Craig | 1,101 | \$123,462 | \$ 112,136 | \$550 | 500 |
| City of Dillingham | 2,264 | \$158,825 | \$ 70,152 | \$15,105 | 6,672 |
| City of Hoonah | 823 | \$70,798 | \$ 86,025 | \$623 | 757 |
| City of Klawock | 782 | \$53,604 | \$ 68,548 | \$16 | 20 |
| City of Nome | 3,468 | \$302,948 | \$ 87,355 | \$5,879 | 1,695 |
| City of Petersburg | 2,973 | \$344,038 | \$ 115,721 | \$15,555 | 5,232 |
| City of Unalaska | 3,662 | \$512,793 | \$ 140,031 | \$12,542 | 3,425 |
| City of Valdez | 3,475 | \$2,481,939 | \$ 714,227 | \$3,990 | 1,148 |
| Total | 632,105.0 1,901.6 | \$93,209,263 | 147,459 | \$2,501,041 | 3,957 |
| State of Alaska G.O. Debt | 692,314 | 98,062,427 | \$ 141,644 | 475,740 | \$ 687 |
| Statewide Total | 692,314 | 98,062,427 | \$ 141,644 | \$ 2,976,781 | \$ 4,300 |

Source: Alaska Taxable

3. Revenue Bonds

In addition to General Obligation Debt that is supported by local taxes, cities and boroughs may issue debt that is supported by the revenues generated by the project financed through the issuance of debt. At the end of June, 2010, approximately \$778.2 million in revenue bonds were outstanding, as shown on Tables 4.5 and 4.6.

TABLE 4.5
Alaska Municipal Debt Issued and Outstanding
 \$ (millions)

| Fiscal Year | Amount Outstanding | | Revenue Debt Outstanding as % of total |
|-------------|--------------------|----------|--|
| | G.O. | revenue | |
| 1972 | \$ 297.2 | \$ 63.0 | 17.5% |
| 1973 | 319.9 | 70.3 | 18.0% |
| 1974 | 395.1 | 77.6 | 16.4% |
| 1975 | 416.8 | 93.9 | 18.4% |
| 1976 | 452.5 | 99.4 | 18.0% |
| 1977 | 514.1 | 288.6 | 36.0% |
| 1978 | 449.5 | 281.8 | 38.5% |
| 1979 | 731.6 | 286.3 | 28.1% |
| 1980 | 809.4 | 347.0 | 30.0% |
| 1981 | 1,030.2 | 441.3 | 30.0% |
| 1982 | 1,214.9 | 512.4 | 29.7% |
| 1983 | 1,591.3 | 592.1 | 27.1% |
| 1984 | 1,951.7 | 630.1 | 24.4% |
| 1985 | 2,131.0 | 720.0 | 25.3% |
| 1986 | 2,420.0 | 817.0 | 25.2% |
| 1987 | 2,332.0 | 1,006.0 | 30.1% |
| 1988 | 2,157.5 | 1,007.5 | 31.8% |
| 1989 | 2,327.7 | 1,000.7 | 30.1% |
| 1990 | 2,201.5 | 1,137.0 | 34.1% |
| 1991 | 2,116.8 | 1,241.1 | 37.0% |
| 1992 | 1,720.5 | 640.6 | 27.1% |
| 1993 | 1,809.9 | 537.2 | 22.9% |
| 1994 | 1,759.9 | 587.9 | 25.0% |
| 1995 | 1,901.6 | 552.1 | 22.5% |
| 1996 | 1,779.1 | 580.8 | 24.6% |
| 1997 | 1,777.5 | 682.0 | 27.7% |
| 1998 | 1,705.0 | 664.0 | 28.0% |
| 1999 | 1,832.0 | 471.0 | 20.5% |
| 2000 | 1,602.9 | 541.3 | 25.2% |
| 2001 | 1,850.4 | 590.3 | 24.2% |
| 2002 | 1,980.8 | 550.2 | 21.7% |
| 2003 | 1,932.6 | 544.5 | 22.0% |
| 2004 | 2,107.2 | 513.8 | 19.6% |
| 2005 | 2,345.5 | 603.8 | 20.5% |
| 2006 | \$ 2,357.8 | \$ 606.0 | 20.4% |
| 2007 | \$ 2,402.1 | \$ 503.3 | 17.3% |
| 2008 | \$ 2,391.9 | \$ 721.4 | 23.2% |
| 2009 | \$ 2,423.6 | \$ 874.4 | 26.5% |
| 2010 | \$ 2,500.4 | \$ 778.2 | 23.7% |

Source: Alaska Taxable

TABLE 4.6
Alaska Municipal Debt Outstanding by Issuer
June 30, 2010
 \$(thousands)

| Cities And Boroughs | G.O. Debt | Revenue Debt | Total Debt | School G.O. Total | State's % of Debt |
|------------------------|---------------------|-------------------|---------------------|----------------------|----------------------|
| Aleutians East | \$ 29,885 | - | \$ 29,885 | \$ 14,665 | 61% |
| City of Adak | 1,180 | - | 1,180 | \$ - | - |
| Anchorage | 1,240,685 | \$ 521,780 | 1,762,465 | 591,069 | 67% |
| Bethel | - | 3,470 | 3,470 | - | - |
| Cordova | 17,840 | - | 17,840 | 16,085 | 66% |
| Craig | 550 | - | 550 | - | - |
| Dillingham | 15,105 | - | 15,105 | 14,133 | 70% |
| Fairbanks | 6,280 | - | 6,280 | - | - |
| Fairbanks NSB | 137,210 | - | 137,210 | 115,429 | 70% |
| Haines Borough | 15,249 | 1,369 | 16,618 | 15,055 | 70% |
| City of Hoonah | 632 | - | 632 | 632 | 70% |
| City of Galena | - | 2,210 | 2,210 | - | - |
| Juneau | 156,356 | 38,055 | 194,411 | 124,700 | 69% |
| Kenai Borough | 82,289 | - | 82,289 | 13,259 | 70% |
| Ketchikan | 6,490 | 60,774 | 67,264 | - | - |
| Ketchikan Bor. | 40,820 | 2,755 | 43,575 | 23,119 | 70% |
| King Cove | - | 1,337 | 1,337 | - | - |
| Klawock | 16 | 1,288 | 1,304 | - | - |
| Kodiak | 7,720 | 7,000 | 14,720 | - | - |
| Kodiak Bor. | 29,225 | - | 29,225 | 27,204 | 64% |
| Lake Peninsula | 6,782 | - | 6,782 | 5,524 | 89% |
| Mat-Su | 169,325 | 7,775 | 177,100 | 158,203 | 67% |
| Nome | 5,879 | 6,213 | 12,092 | 3,574 | 66% |
| North Pole | 1,120 | 679 | 1,799 | - | - |
| North Slope | 387,787 | - | 387,787 | 10,416 | 65% |
| Northwest Arctic | 61,140 | - | 61,140 | 57,672 | 71% |
| Palmer | 1,850 | 3,010 | 4,860 | - | - |
| Petersburg | 15,555 | - | 15,555 | 8,976 | 63% |
| St. Paul | - | 7,363 | 7,363 | - | - |
| Seward | 2,000 | 41,465 | 43,465 | - | - |
| Sitka | 32,550 | 28,090 | 60,640 | 32,550 | 67% |
| Skagway | 5,109 | - | 5,109 | - | - |
| Soldotna | - | - | - | - | - |
| Unalaska | 12,542 | 25,000 | 37,542 | 8,072 | 71% |
| Valdez | 3,990 | 16,300 | 20,290 | 1,595 | 66% |
| Wasilla | 5,080 | - | 5,080 | - | - |
| Wrangell | 2,809 | 1,887 | 4,696 | 2,469 | 70% |
| Yakutat | - | 375 | 375 | - | - |
| Total | \$ 2,501,050 | \$ 778,195 | \$ 3,279,245 | \$ 1,244,401 | |

Source: Alaska Dept. of Community & Economic Development and
 Dept. of Education and Early Development

In FY 2010, revenue bonds accounted for approximately 23.7% of all local debt outstanding in Alaska. Some major municipal borrowers in Alaska have no revenue debt at all. Such borrowers include the Fairbanks North

Star Borough, Kenai Peninsula Borough and North Slope Borough. In these boroughs, one reason for the lack of revenue debt may be the presence of oil and gas property. That is, substituting G.O bonds for revenue bonds transfers much of the debt burden that would otherwise fall on local users to the State. This is because the State also taxes oil and gas property but allows a credit against tax liabilities for taxes paid to municipalities. Thus municipal property taxes on oil and gas property directly reduce the State payment.

4. Municipal School Debt Reimbursement

Under a program enacted in 1970 (Alaska Statutes 14.11.100), the State will reimburse Alaskan municipalities for up to 60, 70, 80, 90, or 100 percent of the debt service on prequalified municipal G.O. debt issued for school construction. As of June 30, 2010, \$1,244.4 million in eligible debt was outstanding. Approximately \$865.1 million of the municipal G.O. school debt outstanding may be fully paid by the State through the program.

Although the statute provides that the State will reimburse school districts for a percentage of construction costs, the actual funding for the program is dependent on annual legislative appropriations. The State is not obligated to appropriate the full amount of the entitled under statute nor contractually obligated to consider doing so. When amounts are insufficient, available funds are allocated pro rata among the eligible school districts. This does not jeopardize the security of the debt, because the full faith, credit and taxing power of the issuing community is behind it. The program has been funded at the percent of entitlement shown in Table 4.7.

TABLE 4.7
Proration of State Reimbursement of
Municipal School Debt

| Fiscal Year | \$ (thousands) | | Percent of Entitlement |
|-------------|-----------------------|----------------------|------------------------|
| | Payments (1983-10) or | Appropriation (2011) | |
| 1983 | \$ | 36,203 | 83% |
| 1984 | | 90,600 | 100% |
| 1985 | | 93,161 | 100% |
| 1986 | | 106,315 | 97% |
| 1987 | | 115,845 | 91% |
| 1988 | | 109,472 | 92% |
| 1989 | | 109,472 | 96% |
| 1990 | | 107,831 | 89% |
| 1991 | | 116,668 | 94% |
| 1992 | | 128,986 | 100% |
| 1993 | | 127,603 | 100% |
| 1994 | | 99,146 | 100% |
| 1995 | | 103,345 | 100% |
| 1996 | | 79,700 | 100% |
| 1997 | | 62,476 | 100% |
| 1998 | | 61,640 | 100% |
| 1999 | | 61,991 | 100% |
| 2000 | | 64,350 | 100% |
| 2001 | | 52,099 | 100% |
| 2002 | | 54,057 | 100% |

TABLE 4.7 (continued)
Proration of State Reimbursement of
Municipal School Debt

\$ (thousands)

| Fiscal Year | Payments (1983-10) or Appropriation (2011) | Percent of Entitlement |
|-------------|---|---------------------------|
| 2003 | 51,973 | 100% |
| 2004 | 60,593 | 100% |
| 2005 | 72,025 | 100% |
| 2006 | 81,095 | 100% |
| 2007 | 93,335 | 100% |
| 2008 | 91,103 | 100% |
| 2009 | 93,319 | 100% |
| 2010 | 95,789 | 100% |
| 2011 | 105,517 | 100% |

Source: State of Alaska, Department of Education & Early Development

Moody's Investor Service and Standard & Poor's Corporation treat reimbursement of local school debt in different ways. Neither agency "double counts" the debt liability associated with the reimbursement, either at the local level or the state level. At the local level, Moody's does not deduct any portion of the local school debt payable by the State of Alaska. There are three primary reasons for this decision. First, according to Moody's, there is considerable lag time between the debt service payment dates and the actual reimbursement by the State of Alaska (while this may have been true in earlier years, the current reimbursements happen within weeks of the debt service disbursement); second, and much more important, since the debt service reimbursements are subject to appropriation, there are many instances across the country where reimbursement of local debt has been reduced and eliminated (Massachusetts is cited as a state that has altered such arrangements); and third, as a policy matter, it would not be consistent with the way the agency handles similar debt in other states and would thus harm the comparability of State debt ratios. For these reasons, the State's responsibility for this reimbursement does not appear in the Moody's calculation of the State's overall debt load.

At the same time, Moody's does footnote local debt issues with a statement that the State of Alaska will reimburse localities for a large portion of debt service payments for local school debt. In addition, while no credit for the reimbursement is given to localities in computing local debt loads, Moody's analysts do recognize that in general, greater debt capacity does exist at the local level as a result of the reimbursement, and that less debt capacity exists at the State level for similar reasons.

When computing the size of local school debt, S&P does deduct the portion of such debt that is paid by the State for local school debt service. Thus, S&P arrives at a "net debt" liability for the local unit. At the same time, the rating agency assigns to the State the total proportionate amount of local school debt that is outstanding and serviced by the State's reimbursement of such debt from State appropriations.

Full funding of currently outstanding bonds eligible for participation in the school debt reimbursement program for FY11 has been estimated at \$105.5 million, and this amount has been appropriated.

5. Property Tax Limits

Two municipalities that have large oil and gas property values, the North Slope Borough and Valdez, may be subject to limitations on the amount of full value that can be taxed. A municipality may choose to levy property taxes for its operating budget under one of two methods. Under AS 29.45.080(b), total property tax revenues may not exceed the equivalent of \$1,500 per capita.

Under AS 29.45.080(c), the total property value that can be taxed is limited to the municipality's population multiplied by 225 percent of the average statewide per capita full value. Although AS 29.45.090(a) limits municipal property tax rates to 3 percent or less (30 mills), AS 29.45.100 provides that taxes may be levied without limitation as to rate or amount to pay debt service.

III. Supplementary Information

A. State Debt Capacity

The ratio of debt service to revenue has been used as a guideline for determining Alaska's debt capacity. This guideline has been utilized as the State's oil revenues have elevated the debt capacity of the State. Using the more traditional ratios of state credit analysis – net tax-supported debt per capita, net tax supported debt as a percentage of personal income, and total net tax supported debt, few states have more favorable ratios than the State (when considering only State of Alaska G.O. bonds, University of Alaska bonds which are State supported, State reimbursement of municipal school debt, and lease payments on lease-purchase financing). However, when including all Alaska's governmental unit's debt, the State has ratios higher than the national averages.

Oil revenues generated in Alaska have been very large in per capita terms. Thus, the debt they support has also been very large in per capita terms. Compared with other states, higher levels per capita in Alaska have been expected due to the small population base, its greater geographic dispersion, and its higher price levels.

Besides boosting debt levels, petroleum revenues have elevated personal income levels as a result of State spending of the revenues and have significantly increased taxable property values as a result of petroleum development. Oil and gas taxable property represented approximately 23 percent of total taxable property in the State as of January 1, 2010.

As petroleum revenues recede with declines in Prudhoe production, the measure of the State's debt capacity will shift from a percentage of revenue figure to a measure more closely allied to the traditional debt ratios. Yet, because of small population and large geography, governmental units in Alaska will, on average, continue to carry more debt than in other states. For this reason, the burden of debt service in relation to revenue will continue to be important.

1. Debt Capacity as Measured by Revenues

The State's debt may be measured by comparing the associated debt service to unrestricted revenues. The State's historical policy was that annual debt service should not exceed 5 percent of annual unrestricted revenues. This target was at times exceeded due to fluctuations in the price of petroleum. The State's debt capacity is dynamic and is reduced to compensate for expectations of reduction to unrestricted revenue due to low petroleum prices. The state releases a revenue sources book semi annually which is used as the basis for forecasting future years' revenue and the associated debt capacity that those revenues support.

Table 4.9 shows past ratios of State general obligation debt service to unrestricted revenue. From 1985 to 1989, the ratio exceeded 5%. In recent years, debt service has included, for determining debt capacity, debt service on State general obligation bonds, University of Alaska bonds that are State supported, State reimbursement of municipal school debt, and lease payments on lease-purchase financing. Inclusion of the above items brings all debt paid from the State's General Fund within the measure of debt burden generally used by the rating agencies. State policy has attempted to maintain this more inclusive ratio in the range of 5% to 8% as seen in Table 5.1.

Tables 4.8 and 4.9 provide historical and projected payments for all debt service paid from the General Fund.

TABLE 4.8
State of Alaska
Ratio of General Obligation Bond Debt Service
To Expenditures and Unrestricted Revenues
 \$ (millions)

| Fiscal Year | Debt Service | General Fund Expenditures* | unrestricted Revenues** | Expenditures | Ratio of Debt Service to Unrestricted Revenues |
|-------------|--------------|----------------------------|-------------------------|--------------|--|
| 1980 | 75.1 | \$1,477 | \$3,718 | 5.1% | 2.0% |
| 1981 | 97.6 | 4,613 | 4,108 | 2.1% | 2.4% |
| 1982 | 97.5 | 4,006 | 3,631 | 2.4% | 2.7% |
| 1983 | 143.6 | 3,846 | 3,588 | 3.7% | 4.0% |
| 1984 | 166.3 | 3,389 | 3,390 | 4.9% | 4.9% |
| 1985 | 169.5 | 3,698 | 3,260 | 4.6% | 5.2% |
| 1986 | 163.2 | 3,653 | 3,076 | 4.5% | 5.3% |
| 1987 | 154.9 | 3,026 | 1,799 | 5.1% | 8.6% |
| 1988 | 147.9 | 3,055 | 2,305 | 4.8% | 6.4% |
| 1989 | 135.5 | 3,186 | 2,186 | 4.3% | 6.2% |
| 1990 | 120.3 | 2,843 | 2,507 | 4.2% | 4.8% |
| 1991 | 95.5 | 2,805 | 2,987 | 3.4% | 3.2% |
| 1992 | 68.2 | 3,024 | 2,463 | 2.3% | 2.8% |
| 1993 | 59.7 | 3,145 | 2,352 | 1.9% | 2.5% |
| 1994 | 33.8 | 3,339 | 1,653 | 1.0% | 2.0% |
| 1995 | 22.9 | 3,312 | 2,083 | 0.7% | 1.1% |
| 1996 | 21.3 | 3,386 | 2,133 | 0.6% | 1.0% |
| 1997 | 16.5 | 3,350 | 2,495 | 0.5% | 0.7% |
| 1998 | 14.2 | 3,296 | 1,826 | 0.4% | 0.8% |
| 1999 | 8.8 | 3,425 | 1,348 | 0.3% | 0.7% |
| 2000 | 0.0 | 3,554 | 2,082 | 0.0% | 0.0% |
| 2001 | 0.0 | 3,758 | 2,282 | 0.0% | 0.0% |
| 2002 | 0.0 | 5,406 | 1,660 | 0.0% | 0.0% |
| 2003 | 0.0 | 5,582 | 1,948 | 0.0% | 0.0% |
| 2004 | 19.4 | 5,419 | 2,346 | 0.4% | 0.8% |
| 2005 | 46.4 | 5,903 | 3,189 | 0.8% | 1.5% |
| 2006 | 45.7 | 6,216 | 4,200 | 0.7% | 1.1% |
| 2007 | 45.0 | 6,777 | 5,159 | 0.7% | 0.9% |
| 2008 | 44.4 | 7,836 | 10,792 | 0.6% | 0.4% |
| 2009 | 43.9 | 9,549 | 5,831 | 0.5% | 0.8% |
| 2010 | 48.9 | 8,419 | 5,513 | 0.6% | 0.9% |

Source: State of Alaska, CAFR, and Revenue Sources Book

* Federal income, Permanent Fund income and Constitutional Budget Reserve Draws included from 2002 forward

* Forward funding of future fiscal year expenditures included from 2007 forward

** Federal Revenue, Permanent Fund income and restricted revenues are not included in unrestricted revenue

TABLE 4.9
State of Alaska
Debt Service on State Supported Debt
 \$ (millions)

| fiscal year | state G.O. | university | lease / purchase | (1) Capital Leases | (2) school debt reimbursement | Capital Project Reimbursements | total debt service |
|-------------|------------|------------|------------------|--------------------|-------------------------------|--------------------------------|--------------------|
| 1979 | \$ 60.0 | \$ 1.7 | \$ 10.1 | - | \$ 22.3 | - | \$ 94.1 |
| 1980 | 75.1 | 1.8 | 10.1 | - | 24.1 | - | 111.1 |
| 1981 | 97.6 | 2.2 | 10.0 | - | 38.4 | - | 148.2 |
| 1982 | 97.5 | 2.3 | 10.0 | - | 38.3 | - | 148.1 |
| 1983 | 143.6 | 2.3 | 9.9 | - | 36.2 | - | 192.0 |
| 1984 | 166.3 | 2.0 | 9.9 | - | 90.6 | - | 268.8 |
| 1985 | 169.5 | 2.0 | 10.7 | - | 93.2 | - | 275.4 |
| 1986 | 163.2 | 1.8 | 10.4 | - | 106.3 | - | 281.7 |
| 1987 | 154.9 | 1.8 | 11.2 | - | 115.8 | - | 283.7 |
| 1988 | 147.9 | 1.5 | 11.2 | - | 109.5 | - | 270.1 |
| 1989 | 135.5 | 2.2 | 11.7 | - | 109.5 | - | 258.9 |
| 1990 | 120.3 | 2.2 | 12.0 | - | 107.8 | - | 242.3 |
| 1991 | 95.5 | 2.7 | 12.0 | - | 116.7 | - | 226.9 |
| 1992 | 68.2 | 2.7 | 11.8 | - | 129.0 | - | 211.7 |
| 1993 | 59.7 | 3.7 | 11.2 | - | 127.6 | - | 202.2 |
| 1994 | 33.8 | 0.2 | 8.5 | - | 99.1 | - | 141.6 |
| 1995 | 22.9 | 0.2 | 10.2 | - | 103.3 | - | 136.6 |
| 1996 | 21.3 | 0.2 | 9.6 | - | 79.7 | - | 110.8 |
| 1997 | 16.5 | 0.2 | 9.5 | - | 62.5 | - | 88.7 |
| 1998 | 14.2 | 0.2 | 10.3 | - | 61.6 | - | 86.3 |
| 1999 | 8.8 | 0.2 | 15.5 | - | 62.0 | - | 86.5 |
| 2000 | 2.4 | - | 15.0 | 3.5 | 64.4 | - | 85.3 |
| 2001 | - | - | 12.8 | 3.5 | 52.1 | - | 68.4 |
| 2002 | - | - | 12.4 | 8.8 | 54.1 | - | 75.3 |
| 2003 | - | - | 11.9 | 8.8 | 52.0 | - | 72.7 |
| 2004 | 19.4 | - | 12.1 | 8.8 | 60.6 | 0.3 | 101.2 |
| 2005 | 46.4 | - | 13.8 | 8.8 | 71.4 | 0.2 | 140.6 |
| 2006 | 45.7 | - | 13.2 | 8.6 | 81.1 | 2.2 | 150.8 |
| 2007 | 45.0 | - | 13.2 | 9.1 | 86.9 | 3.6 | 157.8 |
| 2008 | 44.4 | - | 11.1 | 11.8 | 91.1 | 4.2 | 162.7 |
| 2009 | 43.9 | - | 8.0 | 20.4 | 93.3 | 3.9 | 169.5 |
| 2010 | 48.9 | - | 8.0 | 29.6 | 95.8 | 5.2 | 187.5 |
| 2011 | 53.8 | - | 8.0 | 29.7 | 99.4 | 5.3 | 196.2 |

TABLE 4.9 (Continued)
State of Alaska
Debt Service on State Supported Debt
 \$ (millions)

| fiscal | state | | lease / | (1) Capital | (2) school debt | Capital Project | total debt |
|--------|-------|------|---------|-------------|-----------------|-----------------|------------|
| 2012 | 78.8 | - | 8.0 | 29.7 | 97.7 | 5.3 | 219.5 |
| 2013 | 78.4 | - | 7.9 | 29.7 | 101.6 | 5.2 | 222.8 |
| 2014 | 59.1 | - | 5.1 | 29.7 | 96.3 | 5.1 | 195.3 |
| 2015 | 46.6 | - | 5.1 | 29.7 | 93.9 | 5.0 | 180.3 |
| 2016 | 46.4 | - | 5.0 | 29.7 | 89.3 | 4.2 | 174.7 |
| 2017 | 46.2 | - | 5.0 | 29.7 | 84.3 | 4.2 | 169.4 |
| 2018 | 46.1 | - | 3.4 | 26.3 | 79.4 | 4.1 | 159.3 |
| 2019 | 45.9 | - | 3.4 | 26.3 | 72.9 | 4.1 | 152.6 |
| 2020 | 34.8 | - | 2.2 | 26.3 | 66.2 | 2.8 | 132.2 |
| 2021 | 34.8 | - | 2.2 | 21.1 | 63.1 | 2.8 | 123.9 |
| 2022 | 34.8 | - | - | 21.1 | 52.5 | 2.8 | 111.2 |
| 2023 | 34.9 | - | - | 21.1 | 48.4 | 2.8 | 107.2 |
| 2024 | 34.9 | - | - | 21.1 | 38.0 | 2.8 | 96.8 |
| 2025 | 17.0 | - | - | 21.1 | 29.2 | 2.8 | 70.1 |
| 2026 | 17.0 | - | - | 21.1 | 18.1 | 2.6 | 58.8 |
| 2027 | 36.0 | - | - | 21.1 | 14.1 | - | 71.2 |
| 2028 | 36.0 | - | - | 17.8 | 11.2 | - | 65.0 |
| 2029 | 36.0 | - | - | 17.8 | 5.9 | - | 59.7 |
| 2030 | 35.9 | - | - | 17.8 | 2.7 | - | 56.4 |
| 2031 | 23.4 | - | - | - | - | - | 23.4 |
| 2032 | 23.4 | - | - | - | - | - | 23.4 |
| 2033 | 23.4 | - | - | - | - | - | 23.4 |
| 2034 | 23.4 | - | - | - | - | - | 23.4 |
| 2035 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

1 - There are two prisons, a building and a parking garage financed with capital leases

2 - FY2011 - 2031 payments rely on the Department of Education & Early Developments files as of 6/30/2010

3 - State G.O. debt service includes 12/2010 sale and is net of federal subsidies on interest expense from 2012 through 2034

TABLE 5.0
State of Alaska Debt Service to Unrestricted Revenues
Fall 2010 Revenue Forecast of the Department of Revenue

| Fiscal Year | Unrestricted | State G.O. | State | Total State | School | Total Debt |
|-------------|--------------|------------|--------------|--------------|-----------|------------|
| | Revenues | Debt | Supported | Debt Service | Debt | Service to |
| | (\$Millions) | Service | Debt Service | Debt Service | Transfers | Revenues |
| | | % | % | % | % | % |
| 1980 | 3,718.0 | 2.0 | 0.3 | 2.3 | 0.6 | 3.0 |
| 1981 | 4,108.4 | 2.4 | 0.3 | 2.7 | 0.9 | 3.6 |
| 1982 | 3,631.0 | 2.7 | 0.3 | 3.0 | 1.1 | 4.1 |
| 1983 | 3,587.8 | 4.0 | 0.3 | 4.3 | 1.0 | 5.4 |
| 1984 | 3,390.1 | 4.9 | 0.4 | 5.3 | 2.7 | 7.9 |
| 1985 | 3,260.0 | 5.2 | 0.4 | 5.6 | 2.9 | 8.4 |
| 1986 | 3,075.5 | 5.3 | 0.4 | 5.7 | 3.5 | 9.2 |
| 1987 | 1,799.4 | 8.6 | 0.7 | 9.3 | 6.4 | 15.8 |
| 1988 | 2,305.8 | 6.4 | 0.6 | 7.0 | 4.7 | 11.7 |
| 1989 | 2,186.2 | 6.2 | 0.6 | 6.8 | 5.0 | 11.8 |
| 1990 | 2,507.2 | 4.8 | 0.6 | 5.4 | 4.3 | 9.7 |
| 1991 | 2,986.6 | 3.2 | 0.5 | 3.7 | 3.9 | 7.6 |
| 1992 | 2,462.6 | 2.8 | 0.6 | 3.4 | 5.2 | 8.6 |
| 1993 | 2,352.0 | 2.5 | 0.6 | 3.2 | 5.4 | 8.6 |
| 1994 | 1,652.5 | 2.0 | 0.5 | 2.6 | 6.0 | 8.6 |
| 1995 | 2,082.9 | 1.1 | 0.5 | 1.6 | 5.0 | 6.6 |
| 1996 | 2,133.3 | 1.0 | 0.5 | 1.5 | 3.7 | 5.2 |
| 1997 | 2,494.9 | 0.7 | 0.4 | 1.1 | 2.5 | 3.6 |
| 1998 | 1,825.5 | 0.8 | 0.6 | 1.4 | 3.4 | 4.7 |
| 1999 | 1,348.4 | 0.7 | 1.2 | 1.8 | 4.6 | 6.3 |
| 2000 | 2,081.7 | 0.1 | 0.9 | 1.0 | 3.1 | 4.1 |
| 2001 | 2,281.9 | 0.0 | 0.7 | 0.7 | 2.3 | 3.0 |
| 2002 | 1,660.3 | 0.0 | 1.3 | 1.3 | 3.3 | 4.5 |
| 2003 | 1,947.6 | 0.0 | 1.1 | 1.1 | 2.7 | 3.7 |
| 2004 | 2,345.6 | 0.8 | 0.9 | 1.7 | 2.6 | 4.3 |
| 2005 | 3,188.8 | 1.5 | 0.7 | 2.2 | 2.2 | 4.4 |
| 2006 | 4,200.4 | 1.1 | 0.6 | 1.7 | 1.9 | 3.6 |
| 2007 | 5,158.6 | 0.9 | 0.5 | 1.4 | 1.7 | 3.1 |
| 2008 | 10,792.4 | 0.4 | 0.3 | 0.6 | 0.8 | 1.4 |
| 2009 | 5,837.5 | 0.8 | 0.6 | 1.3 | 1.6 | 2.9 |
| 2010 | 5,512.7 | 0.9 | 0.8 | 1.7 | 1.7 | 3.4 |
| projected | | | | | | |
| 2011 | 5,371.8 | 1.0 | 0.8 | 1.8 | 1.9 | 3.7 |
| 2012 | 5,743.9 | 1.4 | 0.7 | 2.1 | 1.7 | 3.8 |
| 2013 | 6,207.7 | 1.3 | 0.7 | 2.0 | 1.6 | 3.6 |
| 2014 | 6,767.8 | 0.9 | 0.6 | 1.5 | 1.4 | 2.9 |
| 2015 | 7,233.1 | 0.6 | 0.5 | 1.2 | 1.3 | 2.5 |
| 2016 | 7,822.4 | 0.6 | 0.5 | 1.1 | 1.1 | 2.2 |
| 2017 | 7,992.7 | 0.6 | 0.5 | 1.1 | 1.1 | 2.1 |
| 2018 | 8,060.4 | 0.6 | 0.4 | 1.0 | 1.0 | 2.0 |
| 2019 | 7,845.7 | 0.6 | 0.4 | 1.0 | 0.9 | 1.9 |
| 2020 | 6,797.7 | 0.5 | 0.5 | 1.0 | 1.0 | 1.9 |

As shown on Table 5.0, debt service on State G.O. and State Supported debt plus school debt reimbursement payments are projected to be approximately 3.7% of revenues in FY 2011. By 2020 these debt service payments are projected to diminish to 1.9% of revenues.

Table 5.1 presents the ratio of State G.O.'s to full value of taxable property since 1974. The ratio has declined from 6.0% in 1974 to .5% in 2010. As a measure of debt capacity, debt to full value is of minor significance in Alaska due to the existence of a State petroleum property tax.

TABLE 5.1
State of Alaska
Ratio of State General Obligation Debt to Property Values

| Year | Full Value: Cities, Boroughs & Unincorporated Areas at 1/1 \$(millions) | G.O. Bonds Outstanding at 6/30 \$(millions) | Ratio of Debt to Full Value % |
|------|---|---|-------------------------------------|
| 1974 | 4,853 | 293 | 6.0% |
| 1975 | 6,673 | 392 | 5.9% |
| 1976 | 11,679 | 462 | 4.0% |
| 1977 | 17,102 | 530 | 3.1% |
| 1978 | 21,344 | 596 | 2.8% |
| 1979 | 25,003 | 670 | 2.7% |
| 1980 | 26,927 | 631 | 2.3% |
| 1981 | 29,780 | 701 | 2.4% |
| 1982 | 35,226 | 842 | 2.4% |
| 1983 | 39,090 | 946 | 2.4% |
| 1984 | 45,009 | 924 | 2.1% |
| 1985 | 48,915 | 816 | 1.7% |
| 1986 | 55,026 | 706 | 1.3% |
| 1987 | 47,905 | 598 | 1.2% |
| 1988 | 42,250 | 489 | 1.2% |
| 1989 | 39,563 | 386 | 1.0% |
| 1990 | 39,668 | 290 | 0.7% |
| 1991 | 40,933 | 213 | 0.5% |
| 1992 | 42,167 | 159 | 0.4% |
| 1993 | 42,357 | 108 | 0.3% |
| 1994 | 42,829 | 78 | 0.2% |
| 1995 | 44,394 | 58 | 0.1% |
| 1996 | 45,232 | 39 | 0.1% |
| 1997 | 47,013 | 24 | 0.1% |

TABLE 5.1 (Continued)
State of Alaska
Ratio of State General Obligation Debt to Property Values

| Year | Full Value: Cities, Boroughs & Unincorporated | G.O. Bonds | Ratio of Debt |
|------|---|-------------------------------------|--------------------|
| | Areas at 1/1 \$(millions) | Outstanding at 6/30 \$(millions) | to Full Value % |
| 1998 | 47,541 | 11 | 0.0% |
| 1999 | 49,158 | 2 | 0.0% |
| 2000 | 50,773 | 0 | 0.0% |
| 2001 | 53,230 | 0 | 0.0% |
| 2002 | 55,247 | 0 | 0.0% |
| 2003 | 58,361 | 462 | 0.8% |
| 2004 | 59,230 | 462 | 0.8% |
| 2005 | 66,308 | 438 | 0.7% |
| 2006 | 66,847 | 414 | 0.6% |
| 2007 | 84,253 | 390 | 0.5% |
| 2008 | 86,717 | 364 | 0.4% |
| 2009 | 90,428 | 503 | 0.6% |
| 2010 | 93,138 | 476 | 0.5% |

Source: Alaska Taxable Alaska Department of Commerce,
Community, and Economic Development.

B. Public Pension Systems Liabilities

The State administers two major retirement systems -- the Public Employees' Retirement System (for State employees and employees of political subdivisions who elect to join the system) and the Teachers' Retirement System (for teachers and school administrators). The difference between the present value of projected accrued benefits for employees who are covered by the pension system and the market value of the particular pension system's assets is the amount of the State's unfunded liability. An unfunded pension liability generally is not treated by the rating agencies or investors as debt unless it is judged to constitute a significant burden on the State. However, pension fund liabilities are a long-term obligation of the State.

The financial status of each of the State's public pension systems since FY 2004 is shown in Table 5.2. Actuarial results for FY 2010 will be available in June of 2011.

TABLE 5.2
State of Alaska
Retirement System's Financial Status
 \$ (millions)

| <u>Public Employees' Retirement System (PERS)</u> | | | | | | |
|--|------------|------------|------------|------------|------------|------------|
| | 6/30/2004 | 6/30/2005 | 6/30/2006 | 6/30/2007 | 6/30/2008 | 6/30/2009 |
| Present Value of | | | | | | |
| Accrued Benefits | \$ 11,444 | \$ 12,845 | \$ 14,388 | \$ 14,570 | \$ 15,888 | \$ 16,579 |
| Value of Assets | \$ 8,030 | \$ 8,443 | \$ 9,041 | \$ 9,901 | \$ 11,040 | \$ 10,243 |
| Funding Level | | | | | | |
| for Accrued Benefits | \$ (3,414) | \$ (4,402) | \$ (5,347) | \$ (4,669) | \$ (4,848) | \$ (6,336) |
| Funding Ratio | 70.2% | 65.7% | 62.8% | 68.0% | 69.5% | 61.8% |
| <u>Teachers' Retirement System (TRS)</u> | | | | | | |
| | 6/30/2004 | 6/30/2005 | 6/30/2006 | 6/30/2007 | 6/30/2008 | 6/30/2009 |
| Present Value of | | | | | | |
| Accrued Benefits | \$ 5,836 | \$ 6,124 | \$ 6,499 | \$ 7,189 | \$ 7,619 | \$ 7,848 |
| Value of Assets | 3,752 | 3,845 | 3,959 | 4,424 | 4,937 | 4,473 |
| Funding Level | | | | | | |
| for Accrued Benefits | \$ (2,084) | \$ (2,278) | \$ (2,540) | \$ (2,765) | \$ (2,682) | \$ (3,375) |
| Funding Ratio | 64.3% | 62.8% | 60.9% | 61.5% | 64.8% | 57.0% |

Source: State of Alaska PERS and TRS valuation reports

The Public Employees' Retirement System's actuarial accrued liabilities are funded at 61.8 percent and the Teachers' System's actuarial accrued liabilities funded at 57.0 percent. It is important to note that these funding levels include accrued benefit costs otherwise known as Other Post Employment Benefits (OPEB). Unfunded pension liabilities are not considered to be a contingent liability until the funding ratio drops below 60 percent.

C. Credit Ratings of State

The State of Alaska's general obligation bond rating was re-established in 2003 with the issuance of the 2003 Series A and B bonds. The State received AA ratings from the three national bond credit rating agencies. Both Fitch Ratings and Standard and Poor's AA ratings have a stable outlook assigned to them, while Moody's Aa2 rating is currently stable, it had a negative outlook assigned to it from August 2002 until December 2004 when it was revised to stable. On November 22, 2010 Moody's upgraded the State to Aaa. On March 27, 2008 Standard & Poor's increased their credit rating on the State to AA+ with a stable outlook.

Following is the State of Alaska's credit rating history, shown on Table 5.3.

TABLE 5.3
State of Alaska Credit Rating History
 ratings as of date shown

| Moody's Investor Service | Standard and Poor's Corp. | Fitch Investors Service |
|---------------------------|---------------------------|-------------------------|
| July 13, 1961 | Baa | June 4, 1971 |
| September 12, 1969 | Baa1 | January 23, 1975 |
| August 29, 1974 | A1 | June 14, 1980 |
| June 13, 1980 | Aa | August 5, 1992 |
| November 26, 1998 | Aa2 | March 27, 2008 forward |
| November 22, 2010 forward | Aaa | |

D. Private Activity Bond Ceiling

The Tax Reform Act of 1986 established a ceiling on annual issuance of Qualified Private Activity Bonds (PAB's), effective August 15, 1986, at the level of \$250 million for the remainder of 1986 and for 1987, and \$150 million thereafter. Effective in calendar year 2001 the PAB cap became subject to annual adjustment and has been increased each year since. In calendar year 2010 the cap was \$273.775 million. The PAB ceiling encompasses qualified mortgage revenue bonds, student loan bonds some of the types of tax-exempt debt issued by AIDEA and AEA, and certain other types of tax-exempt bonds to promote industrial development.

The responsibility for allocating Alaska's annual ceiling was assigned to the State Bond Committee by State law, beginning in 1987. Allocation carry-forwards expire after three calendar years. Table 5.4 summarizes the allocation, use and carry-forwards of the PAB ceiling over the past five years.

TABLE 5.4
Alaska Private Activity Bond Ceiling Allocations
Use and Carryforwards - Last Five Years

| \$ (thousands) | | | | | | | | |
|----------------|---------------|------------|------------|---------|------------|---------------|---------------------------|-------------------|
| calendar year | total ceiling | allocation | | use | | lapsed amount | available carryforward at | calendar year end |
| 2005 | 239,180 | 40,000 | to ASLC | 58,250 | by ASLC | - | 103,674 | ASLC |
| | | 199,180 | to AHFC | 5,803 | by AHFC | - | 593,684 | AHFC* |
| 2006 | 246,610 | 70,000 | to ASLC | 90,735 | by ASLC | - | 82,939 | ASLC |
| | | 129,515 | to AHFC | 252,593 | by AHFC | - | 470,606 | AHFC |
| 2007 | 256,235 | 47,095 | AIDEA | 47,095 | by AIDEA | - | - | AIDEA |
| | | 40,000 | to ASLC | 36,154 | by ASLC | - | 73,846 | ASLC |
| | | 208,435 | to AHFC | 89,370 | by AHFC | - | 441,759 | AHFC |
| | | 6,000 | AIDEA | 6,000 | by AIDEA | - | - | AIDEA |
| 2008 | 262,500 | 1,800 | Sand Point | 18,000 | Sand Point | - | - | |
| | | 131,048 | to ASLC | - | by ASLC | - | 204,894 | ASLC |
| | | 131,048 | to AHFC | 161,760 | by AHFC | - | 411,047 | AHFC ** |
| 2009 | 273,270 | 123,270 | to ASLC | - | by ASLC | (33,846) | 294,318 | ASLC |
| | | 150,000 | to AHFC | 80,827 | by AHFC | | 479,788 | AHFC |
| 2010 | 273,775 | 1,263 | to AEA | 1,263 | by AEA | | 121,924 | ASLC |
| | | 252,512 | to AHFC | 4,600 | by AHFC | | 490,913 | AHFC |
| | | 20,000 | to AIDEA | 14,911 | by AIDEA | | 5,089 | AIDEA |
| | | - | to ASLC | - | by ASLC | (40,000) | 254,318 | ASLC |

Carryforwards expire after three years.

*\$90,605,891.95 shown as available at year end lapsed.

** Doesn't include \$96,550,479 special 2008 allocation due to Housing and Economic Recovery Act

Source: State Bond Committee

E. State Bond Committee

AS 37.15 includes the State's Bonding Act and creates the State Bond Committee (SBC). The members of the SBC are the Commissioner of Commerce, Community and Economic Development (who serves as chairman), the Commissioner of Revenue (who serves as secretary), and the Commissioner of Administration.

The duties of the State Bond Committee include adopting resolutions and preparing documents necessary for the issuance, sale, and delivery of State bonds. The State Bond Committee must fix the principal amount, denomination, date maturities, place of payment, terms, rights of redemption if any, form, condition and covenants of the bonds; fix the date of sale and the form of the notice of sale; and provide the notice of sale of State debt.

Additionally, the State Bond Committee manages and administers the State debt policy including requests for appropriations to the debt retirement fund, the repayment of State debt and related administrative matters.

Staff support for the State Bond Committee is provided by the Treasury Division of the Department of Revenue.

This publication was released by the Department of Revenue.